BELL POTTER

21 March 2016

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)

SPL signs commercial deal for agrochemicals

Recommendation
Buy (unchanged)
Price
$0.685
Valuation
$1.12 (previously $1.11)
Risk
Speculative

GICS Sector

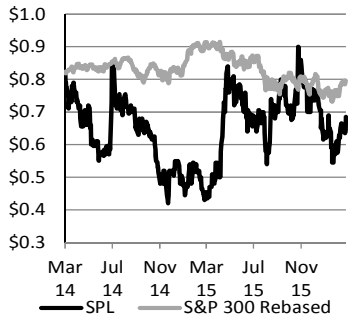
Pharmaceuticals & Biotechnology

Expected Return	
Capital growth	**63.5%**
Dividend yield	**0.0%**
Total expected return	**63.5%**
Company Data & Ratios	
Enterprise value	**$196.8m**
Market cap	**$251.5m**
Issued capital	**367.11m**
Free float	**100%**
Avg. daily val. (52wk)	**$343,586**
12 month price range	**$0.425 - $0.98**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.55	0.70	0.45
Absolute (%)	25.69	-2.14	52.22
Rel market (%)	18.62	-7.30	62.52

Absolute Price



SOURCE: IRESS

SPL collaborates with Adama on novel herbicide

SPL has signed a commercial licensing agreement with Adama for the use of its Priostar dendrimer technology. The deal is for a Priostar enhanced novel 2,4-D herbicide which Adama & SPL have been working on since 2013. 2,4-D is one of the top 3 herbicides sold world-wide. The license is for the US market only. However, it includes a provision to expand the license in future to include additional territories. Israel based Adama (formerly Makhteshim Agan), is one of the world's largest manufacturers of generic agrochemicals. Financial terms of the deal were not disclosed. SPL will receive undisclosed royalties on net sales (BPe 4-5%). We assume that Adama will bear all further development and commercialisation costs. Adama has already undertaken extensive trials of the Priostar 2,4-D formulation.

Deal highlights underlying value of Priostar technology

2,4-D sales in US market in 2014 was ~US$115m. Usage in the US is expected to increase by ~75% by 2020. We estimate first sales from the Priostar 2,4-D product in FY19. We model peak US sales (pre-risk adjustment) for Priostar-2,4-D product at US$62m, translating to ~US$3.1m peak royalty revenues (pre-risk adjustment) to SPL. The Adama deal highlights the underlying value of SPL's Priostar technology and more broadly its dendrimer platform. We expect to see more deals around the application of Priostar to enhance off-patent crop protection formulations. The 2013 collaboration between Adama & SPL included 3 products for application of Priostar. Hence, we see the potential for the partnership between the two companies to be expanded in future to include other products. We also expect the validation from the deal to improve the licensing prospects of SPL's internal agrochemical (Priostar-glyphosate) programme.

Valuation largely unchanged at $1.12, Retain Buy

Inclusion of the risk adjusted royalty revenues from the Adama 2,4-D deal has had a minimal impact on our valuation. We now value SPL at $1.12/sh (was $1.11/sh). There was no change to our FY16-18 forecasts. We retain Buy. Key catalysts: clinical data from Phase I DEP docetaxel trial (1HCY16) and Phase III R-BV trials (2HCY16).

Earnings Forecast

Year end 30th June	2014A	2015A	2016E	2017E	2018E
Revenue (A$m)	4.5	4.3	7.7	36.7	42.6
EBITDA (A$m)	-14.5	-18.6	-21.8	18.0	28.6
NPAT (adjusted) (A$m)	-14.6	-19.0	-22.1	12.7	20.5
EPS (adjusted) (cps)	-5.15	-6.11	-6.43	3.40	5.49
EPS growth (%)	N/A	N/A	N/A	NM	61.5%
PER (x)	N/A	N/A	N/A	20.2	12.5
EV/EBITDA (x)	-13.6	-10.6	-9.0	11.0	6.9
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%	-44.2%	19.8%	23.9%

NOTE: REVENUE INCLUDES R&D TAX INCENTIVES. FY17 & FY18 REVENUE ALSO INCLUDE POTENTIAL UPFRONT FROM VIVAGEL SYMPTOMATIC RELIEF, PREVENTION OF R-BV AND DOCETAXEL DEALS AND ROYALTIES. SOURCE: BELL POTTER SECURITIES ESTIMATES

SPL signs commercial deal with Adama for agrochemicals

SPL has signed a commercial licensing agreement with Adama for the use of its Priostar dendrimer technology. The deal is for a Priostar enhanced novel 2,4-D herbicide which Adama & SPL have been working on since 2013. The agreement covers the rights to the US market only.

Israel based Adama (formerly Makhteshim Agan), is one of the world's largest manufacturers of generic agrochemicals. It is ranked among the Top 10 crop protection companies in the world. It has a deep portfolio of off-patent crop protection products to help farmers increase their yields by controlling weeds, insects and disease that harm their crops. Crop protection products or pesticides include herbicides which are used to control weeds, fungicides which are used to control bacteria and insecticides which are used to protect crops from insects. Adama, sells its products in more than 120 countries around the world, with 2015 revenues of over US$3bn.

In our view, the Adama deal highlights the underlying value of SPL's Priostar technology and more broadly its dendrimer platform. We expect to see more deals around the application of Priostar to enhance off-patent crop protection formulations.

We also see the potential for the partnership between Adama and SPL to be expanded in future to include other products.

Terms of the SPL-Adama deal

- Financial terms of the deal were not disclosed.
- The license is for the US market only. However, it includes a provision to expand the license in future to include additional territories.
- SPL will receive undisclosed royalties on net sales (BPe 4-5%). We model a 5% royalty on net sales.
- Although not specified we assume that Adama will bear all future development and commercialization costs related to the product under the agreement.
- As per the release, Adama has already undertaken extensive trials of the Priostar improved 2,4-D formulations and we understand that the positive results have led to the commercial deal between the companies.
- The deal does not include SPL's internal agrochemical candidate dendrimer-glyphosate or any other agrochemicals products which SPL is using its dendrimer technology to improve.

Our comments

- **Deal highlights the underlying value of SPL's Priostar technology and more broadly its dendrimer platform:** SPL is applying its Priostar dendrimer technology to improve the formulation and therefore efficiency of crop protection agents. This is likely to reduce the cost and the environmental impact of using such chemicals. **This application of its dendrimers is attractive commercially for SPL since it requires minimal investment from SPL but could lead to multiple licensing deals with modest single digit royalty streams attached as evident from the Adama deal.**

  In our view, the Adama deal highlights the underlying value of SPL's Priostar technology and more broadly its dendrimer platform. **We expect to see more such deals around the application of Priostar to enhance off-patent crop protection**

formulations. We note that SPL has ongoing research collaborations with various agrochemical companies and estimates that the value of its partners' share of market for the actives under development exceeds US$5bn.

- **There is potential for Adama-SPL deal to expand in future to include other jurisdictions:** Adama sells its products in more than 120 countries around the world. The current license agreement has a provision to expand the license in future to include additional territories. Hence, we see the potential for the Priostar 2,4-D partnership between the two companies to be expanded in future to include other jurisdictions as well. Global sales of 2,4-D herbicide has been estimated in 2014 to be ~US$680m and hence expansion to other jurisdictions would increase the value of the deal.
- **There is potential for Adama-SPL deal to expand in future to include other products:** The initial research collaboration between the two companies in March 2013 included three actives with sales >$400m globally, for application of the Priostar dendrimer technology. SPL continues to explore other Priostar product opportunities with Adama. Hence, we see the potential for the partnership between the two companies to be expanded in future to include other products as well.
- **Deal improves licensing prospects for SPL's internal dendrimer-glyphosate program:** We believe that the Adama deal by validating the Priostar dendrimer technology will have positive read throughs for the licensing prospects of SPL's internal pipeline. SPL's internal Priostar enhanced glyphosate program has shown encouraging efficacy results from field trials. Glyphosate is the most commonly used herbicide globally (Trade name Roundup) with annual sales of US$4-5bn. We expect SPL to license the product in the near-term in a royalty based deal (BPe 5% royalty rate).

In summary, we view the deal with Adama as a validation of SPL's Priostar dendrimer technology and we expect it to have positive implications for the licensing prospects of SPL's internal agrochemicals pipeline. It highlights the underlying value of SPL's Priostar technology and more broadly its dendrimer platform. In our view, this deal is the first of many more agrochemical deals to come. We expect to see more deals around the application of Priostar to enhance off-patent crop protection formulations. We also see the potential for the partnership between Adama and SPL to be expanded in future to include other products and/or other jurisdictions. We expect first sales from the Priostar improved 2,4-D formulation in FY19.

Earnings and Valuation Changes

Following the announced deal with Adama for 2,4-D herbicide, we have included the asset in our model. We now model royalty revenues to SPL from the deal.

Key assumptions around the deal

- Adama will bear all future development and commercialisation costs related to the product under the agreement.
- SPL will be eligible to receive undisclosed royalties on product sales (BPe 4-5%). We model a 5% royalty on net sales.
- We do not model any upfronts or milestones for the deal, assuming it's a pure royalty based deal in the absence of any information to that effect from the company.
- We estimate that Adama could be ready to file the product for approval within the next 12 months. We estimate first sales from the product in FY19.
- We only model royalty revenues to SPL for Priostar improved 2,4-D formulation for the US market.
- We estimate peak penetration of the Priostar-2,4-D product as 20% of the US 2,4-D market.
- We estimate pre-risk adjusted peak sales for Priostar-2,4-D product at US$62m.
- Our estimates assume that the usage of 2,4-D in the US will grow from current levels. The US Department of Agriculture (USDA) expects 2,4-D usage in the US to increase by ~75% by 2020.
- We assign a 45% probability of success (of reaching the market) to the Priostar 2,4-D formulation, given that its yet to be approved however, has undergone extensive trials.
- We note that that 2,4-D has been off patent for many years now and different formulations of it is sold and manufactured by various companies around the world. As such the basic toxicity profile of the product is well characterised.

We value SPL at $1.12/sh

Inclusion of the risk adjusted royalty revenues from the Adama 2,4-D deal has had a marginal impact on our valuation for SPL. We now value SPL at $1.12/sh (was $1.11/sh). There was no change to our FY16-18 forecasts. **We retain our Buy (Speculative) recommendation.**

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)	377.9
Add: Cash at end FY16E (AUDm)	41.2
Less: Debt at end FY16E (AUDm)	0.0
Equity Value (AUDm)	419.0
Total diluted shares at end FY16E (million)	375.1
Value per share (AUD)	**$1.12**
Current Share price (AUD)	$0.69
Expected Capital Growth	63.5%

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	2017 (Ex-US)	15.0%	$58	80.0%	$46	**$0.12**	10.9%
VivaGel BV Prevention of Recurrence	Phase III	2018	25.0%	$647	44.0%	$192	**$0.51**	45.7%
VivaGel Coated Condom - Okamoto	Regulatory certification received	2017 (Japan)	10.0%	$21	80.0%	$5	**$0.01**	1.3%
VivaGel Coated Condom - Ansell	Regulatory approval received for AU,NZ	2015 (Ex-US), 2017 (US)	10.0%	$309	80.0%	$83	**$0.22**	19.9%
DEP Docetaxel (first solid tumour)	Phase I	2021	15.0%	$511	15.0%	$63	**$0.17**	15.0%
AZN DEP Cancer Drug (lead)	Pre-clinical	2024	NA	NA	NA	$28	**$0.08**	6.8%
Dendrimer-Glyphosate	Field Trials ongoing	2017	10.0%	$786	15.0%	$21	**$0.05**	4.9%
Priostar-2,4-D	Pre Regulatory Submission	2019 (US)	20.0%	$62	45.0%	$3	**$0.01**	0.7%
Diagnostics/Laboratory Reagents	On-market	NA	NA	NA	NA	$5	**$0.01**	1.2%
Other Pipeline/Non-allocated	NA	NA	NA	NA	NA	-$68	**-$0.18**	-16.2%
Cash (EOY 2016E)	NA	NA	NA	NA	NA	$41	**$0.11**	9.8%
Debt (EOY 2016E)	NA	NA	NA	NA	NA	-$0.0	**$0.00**	0.0%
Equity Value						**$419.0**	**$1.12**	**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. PEAK SALES FOR PRIOSTAR -2,4-D IS FOR US MARKET 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	2017	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%
DEP Docetaxel	First Solid tumour	Phase II complete	TBC	2018	300	15	125	160	15.0%
AZN DEP Cancer Drug (lead)	Unknown	Pre-clinical	AstraZeneca	2016	126	2	64	60	NA
Priostar-2,4-D	Crop protection	Pre Regulatory Submission	Adama (US only)	2016	0	NA	NA	NA	5.0%
Dendrimer-Glyphosate	Crop protection	Pre Regulatory Submission	TBC	2016	0	NA	NA	NA	5.0%

NOTE: OUR DEP 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), 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 assign any value to SPL's commercial opportunity for the VivaGel Coated Condom in China. SPL has signed an MOU with a Chinese company to potentially manufacture and sell the VCC to the government segment of the Chinese market (estimated market 3bn condoms/year). SPL will work with the Chinese company towards getting regulatory approval in China ahead of launch in that market and finalisation of a binding commercial agreement. Approval and finalisation of this license agreement for China 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 DEP docetaxel, which demonstrated that DEP 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 DEP 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 DEP docetaxel could lead to upgrades in our numbers.** We will revisit our assumptions on the basis of the Phase I DEP 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:

- **3QFY16 - Results from the first dose escalation phase of Phase I DEP docetaxel trial on the MTD (maximum tolerated dose);**
- **4QFY16- Results from second expansion phase of DEP docetaxel Phase I trial;**
- 2HFY16 – Potential licensing deal for agrochemicals program dendrimer-glyphosate;
- 2HFY16 - Additional regulatory approvals for VivaGel for symptomatic relief of Bacterial Vaginosis (BV) in Ex-US markets;
- 1HFY17 - Licensing deal for VivaGel for symptomatic relief of BV with upfronts and milestones;
- 2HFY16/1HFY17 - Additional regulatory approvals for VivaGel coated condom (VCC) in markets under agreement with Ansell;
- **1HFY17 – Potential initiation of Phase II clinical trial for DEP docetaxel;**
- **1HFY17 - Results from the two Phase III trials of VivaGel for Prevention of Recurrence of Bacterial Vaginosis;**
- 1HFY17 - Launch of VCC in second market (potentially New Zealand) by Ansell;
- 1HFY17 - Launch of VivaGel coated condom in Japan by Okamoto;

In addition, we expect that over the next 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 ~29.2%.

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 CY16 will be a watershed year for SPL, with the release of Top-line data from the Phase I DEP 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 ~A$54.7m 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 DEP 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 DEP 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 or OTC BV product 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.

Starpharma
as at 21 March 2016

Recommendation	Buy, Speculative
Price	$0.685
Valuation	$1.12

Table 4 - Financial summary

Starpharma (SPL) — **Share price (A$)** **$0.685**
As at 21 March 2016 — **Market cap (A$m)** **251.5**

Profit and Loss

Y/e June 30 (A$m)	2014A	2015A	2016E	2017E	2018E
Revenue*	4.5	4.3	7.7	36.7	42.6
EBITDA	**-14.5**	**-18.6**	**-21.8**	**18.0**	**28.6**
Depreciation & Amortisation	-1.1	-1.2	-1.0	-1.1	-1.1
EBIT	**-15.6**	**-19.8**	**-22.9**	**16.9**	**27.6**
Net interest & Other Income/(Expense)	1.0	0.9	0.8	1.3	1.8
Pre-tax profit (loss)	-14.6	-19.0	-22.1	18.2	29.3
Tax	0.0	0.0	0.0	5.4	8.8
NPAT (adjusted)	-14.6	-19.0	-22.1	12.7	20.5
Less minority interests	0.0	0.0	0.0	0.0	0.0
Net profit (loss) to shareholders	**-14.6**	**-19.0**	**-22.1**	**12.7**	**20.5**
Reported net profit (loss) to shareholders	-14.6	-19.0	-22.1	12.7	20.5

* Including R&D tax incentive and royalties. FY17 Revenue number includes potential upfront from VivaGel symptomatic relief deal and potential upfront & milestone from BV prevention of recurrence deal and milestone from AZN deal and FY18 revenue number includes potential upfront from DEP docetaxel deal, milestone from BV symptomatic relief and AZN deals.

Valuation data

Y/e June 30	2014A	2015A	2016E	2017E	2018E
Net profit (A$m)	-14.6	-19.0	-22.1	12.7	20.5
EPS (c)	-5.1	-6.1	-6.4	3.4	5.5
EPS growth (%)	N/A	N/A	N/A	NM	61.5%
P/E ratio (x)	N/A	N/A	N/A	20.2	12.5
CFPS (c)	-3.5	-4.4	-6.7	4.8	5.9
Price/CF (x)	-19.9	-15.6	-10.3	14.2	11.6
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	-9.0	11.0	6.9
EV/EBIT	-12.6	-9.9	-8.6	11.6	7.1

Cashflow

Y/e June 30 (A$m)	2014A	2015A	2016E	2017E	2018E
Reported NPAT plus discontinued ops.	-14.6	-19.0	-22.1	12.7	20.5
Non-cash items	2.5	2.0	1.7	1.7	1.7
Working capital	2.3	3.3	-2.5	3.6	-0.2
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Operating cashflow	**-9.8**	**-13.6**	**-22.9**	**18.0**	**22.1**
Capex	-0.3	-0.7	-0.2	-0.2	-0.2
Investments	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.0	0.0	0.1	0.0	0.0
Investing cashflow	**-0.3**	**-0.7**	**-0.1**	**-0.2**	**-0.2**
Change in borrowings	0.0	0.0	0.0	0.0	0.0
Equity issued	0.2	20.5	32.6	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**	**32.6**	**0.0**	**0.0**
Net change in cash	**-9.9**	**6.2**	**9.6**	**17.8**	**22.0**
Cash at end of period*	24.0	30.8	41.2	59.7	82.4
* Includes effect of exchange rate fluctuations on cash balance					
Free cash flow	**-10.1**	**-14.3**	**-23.1**	**17.9**	**22.0**

Share price now	$0.685
Valuation:	$1.12
Premium (discount) to price	63.5%
Recommendation:	Buy
Risk Rating	Speculative

Profitability ratios

Y/e June 30	2014A	2015A	2016E	2017E	2018E
EBITDA/revenue (%)	N/A	N/A	N/A	49.0%	67.1%
EBIT/revenue (%)	N/A	N/A	N/A	46.1%	64.6%
Return on assets (%)	-39.7%	-42.7%	-40.7%	18.5%	22.6%
Return on equity (%)	-44.4%	-50.5%	-44.2%	19.8%	23.9%
Return on funds empl'd (%)	-44.3%	-50.4%	-44.2%	19.8%	23.9%
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	41.2	59.7	82.4
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	10.6	13.6	17.9

Balance sheet

Y/e June 30 (A$m)	2014A	2015A	2016E	2017E	2018E
Cash	24.0	30.8	41.2	59.7	82.4
Current receivables	4.4	4.0	4.1	0.7	1.0
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**	**45.4**	**60.6**	**83.7**
PPE	0.5	0.9	0.8	0.7	0.6
Non-current receivables	0.0	0.0	0.0	0.0	0.0
Intangible assets	7.8	8.4	8.0	7.3	6.5
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Non-current assets	**8.3**	**9.3**	**8.9**	**8.0**	**7.0**
Total assets	**36.9**	**44.4**	**54.3**	**68.6**	**90.7**
Payables	3.1	5.9	3.5	3.7	3.9
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	0.0	0.0	0.0
Total liabilities	**3.9**	**6.8**	**4.3**	**4.5**	**4.7**
Shareholders' equity	33.0	37.6	50.0	64.1	86.0
Minorities	0.0	0.0	0.0	0.0	0.0
Total shareholders funds	**33.0**	**37.6**	**50.0**	**64.1**	**86.0**
Total funds employed	**36.9**	**44.4**	**54.3**	**68.6**	**90.7**
W/A shares on issue	284.4	310.1	343.1	374.3	374.2

Interims

Y/e June 30 (A$m)	1H15A	2H15A	1H16A	2H16E	1H17E
Revenue*	1.9	2.4	5.3	2.3	4.1
EBITDA	-8.4	-10.2	-9.8	-12.1	-6.3
Depreciation & Amortisation	-0.6	-0.6	-0.5	-0.6	-0.7
EBIT	-9.0	-10.8	-10.2	-12.6	-7.0
Net interest & Other Income (Expense)	0.5	0.4	0.2	0.6	0.4
Pre-tax profit	-8.5	-10.4	-10.0	-12.0	-6.6
Tax	0.0	0.0	0.0	0.0	0.0
NPAT (adjusted)	-8.5	-10.4	-10.0	-12.0	-6.6
Less minority interests	0.0	0.0	0.0	0.0	0.0
Net profit to shareholders	-8.5	-10.4	-10.0	-12.0	-6.6
*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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