BELL POTTER

18 July 2016

Speculative

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

Analyst
Tanushree Jain 612 8224 2849

Authorisation
John Hester 612 8224 2871

Starpharma (SPL)

Remains well funded to invest in growth

Recommendation
Buy (unchanged)
Price
$0.685
Valuation
$1.07 (previously $1.12)
Risk
Speculative

GICS Sector

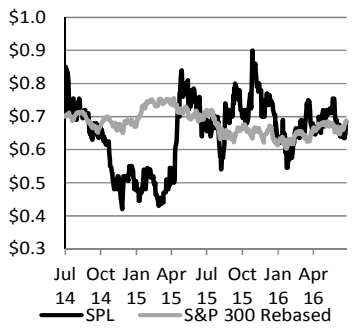
Pharmaceuticals & Biotechnology

Expected Return	
Capital growth	**56.2%**
Dividend yield	**0.0%**
Total expected return	**56.2%**
Company Data & Ratios	
Enterprise value	**$205.5m**
Market cap	**$251.5m**
Issued capital	**367.11m**
Free float	**100%**
Avg. daily val. (52wk)	**$308,649**
12 month price range	**$0.535 - $0.98**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.76	0.75	0.68
Absolute (%)	-9.27	-8.05	1.48
Rel market (%)	-11.48	-18.18	1.84

Absolute Price



SOURCE: IRESS

Strong cash position underpins future growth

SPL has reported cash balance of ~$46m (vs. BPe $41.2m) for the quarter ended 30th June. We believe the variance is driven by increased trade payables and accruals resulting in positive adjustments to working capital. We remain comfortable with our opex forecasts for FY16. SPL has been burning ~A$2m/month on average over the last 12 months (excluding R&D tax incentive and customer receipts). In our view, SPL's strong cash position provides runway for the next 2 years and should allow it to comfortably progress to the next inflection point on each of its pipeline programs, as well as support its ongoing partnering negotiations. We estimate that SPL could receive ~A$42m in upfront and milestones from AstraZeneca and VivaGel BV deals over FY17 and FY18, which could further strengthen its balance sheet.

Clinical & commercial milestones expected to occur in FY17

We expect significant progress in FY17 across the 2 key areas of SPL's business i.e. DEP drug delivery platform and its VivaGel portfolio - coated condom (VCC) and Bacterial vaginosis (BV) - to drive a re-rating. **Key clinical milestones include** a) Top-line results from Phase I DEP docetaxel trial in 4QCY16; b) initiation of Phase 2 DEP docetaxel trial in 1HCY17; c) Top-line results from Phase III R-BV trials in 4QCY16. **Key commercial milestones include** a) Launch of VivaGel for symptomatic relief of BV in 2HCY16; b) additional regulatory approvals for BV symptomatic relief and VCC in 2HCY16; c) new deals for BV symptomatic relief in 2HCY16 and for prevention of recurrence of BV in 1HCY17; d) completion of IND enabling studies (2HCY16) and initiation of Phase I trial (1HCY17) with first DEP AstraZeneca drug.

Valuation reduced to $1.07, Maintain Buy

Our revised assumptions regarding timelines for upfront and milestone payments and first sales, increased R&D costs and revised currency estimates, partially offset by rolling forward of our DCF model, has resulted in our valuation for SPL reducing marginally to A$1.07/sh (was A$1.12/sh). Our NPAT est. changed as follows 0% FY16, -134% FY17 and -31% FY18. We retain our Buy recommendation.

Earnings Forecast

Year end 30th June	2014A	2015A	2016E	2017E	2018E
Revenue (A$m)	4.5	4.3	7.7	19.6	35.1
EBITDA (A$m)	-14.5	-18.6	-21.7	-4.2	20.1
NPAT (adjusted) (A$m)	-14.6	-19.0	-22.1	-4.3	14.1
EPS (adjusted) (cps)	-5.15	-6.11	-6.43	-1.15	3.76
EPS growth (%)	N/A	N/A	N/A	N/A	NM
PER (x)	N/A	N/A	N/A	N/A	18.2
EV/EBITDA (x)	-14.2	-11.0	-9.5	-49.4	10.2
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%	-44.0%	-9.1%	22.4%

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

Key Pipeline Update

SPL has provided an update on its product portfolio. Key developments are as follows:

- **VivaGel Prevention of recurrence of Bacterial Vaginosis (R-BV) trials nearing completion:** SPL is running two Phase III trials of VivaGel with 620 patients each for the prevention of recurrence of BV (R-BV) after reaching agreement with the FDA under a Special Protocol Assessment (SPA). **The trials are progressing well (now over 90% recruited), with recruitment ongoing at over 100 sites.** We expect top-line results from the trials in 4QCY16. We expect positive results from these trials would enable SPL to get a lucrative deal (BPe 1HCY17) given the high unmet need and no other approved treatments.
- **DEP docetaxel Phase I trial moves into second expansion phase:** DEP docetaxel Phase I trial is now expanding to the dose expansion phase where a cohort of patients will be treated at the maximum tolerated dose from the dose escalation phase. A large European site has been added to facilitate rapid recruitment given the competition for patients in Australia so far has slowed the recruitment rate in the trial. We expect this European site would also potentially be one of the first few sites in a follow on Phase 2 trial for DEP docetaxel. There have been no dose limiting toxicities including neutropenia or alopecia (hair loss). **SPL also reports that patients (heavily pre-treated) have shown promising efficacy signals in a range of tumours (including those not typically sensitive to docetaxel) and at a broad range of dose levels, including at levels lower than the usual Taxotere clinical doses.** Planning for a Phase 2 program is underway. We note that having patients with different types of tumours in the dose expansion phase on the MTD dose, gives a reasonable chance for the company to get some efficacy signals (response to treatment) and potentially help the company to identify the indication it should pursue in Phase II trials. **We expect Top-line results from this trial in 4QCY16.** Positive results from this trial will provide proof of concept and will be a crucial de-risking event for the company. We also expect the data to have flow through implications for the rest of the drug delivery pipeline.
- **AstraZeneca drug delivery partnership may be expanded further:** The company also reported that their partnered program with AstraZeneca is progressing well. Importantly, the company has stated that the two companies are now evaluating new therapeutic applications outside the existing license agreement. **We believe there is the potential for the partnership with AstraZeneca to expand over the next 12 months to include new DEP programs beyond the existing license agreement, with additional financial terms attached.**
- **Regulatory and Commercialisation progress made for VivaGel portfolio of products:** The company also reported that they have made significant progress (details undisclosed) on the regulatory and commercialisation activities for the VivaGel coated condom (VCC) and the VivaGel OTC (over the counter) product for symptomatic relief of BV. SPL expects to conclude some of these activities in the near future. We expect additional regulatory approvals for VCC in markets under agreement with Ansell over the next 6 months. **We also expect SPL's partner Aspen to launch the OTC BV product in ANZ before the end of Dec 2016** and also expect additional regulatory approvals and licensing deals for the OTC BV product to be finalised over the course of the next 6 months.

Earnings and Valuation Changes

We have revisited our assumptions for Starpharma and made adjustments to our forecasts based on the Appendix 4C for quarter ended June 30th 2016 filed on the ASX, which have impacted earnings and valuation.

Key changes to our modelling assumptions

SPL reported ~A$46.0m cash at the end of FY16

- We believe the variance between our forecasts and SPL's reported cash balance of ~A$46m at the end of FY16 is driven by increased trade payables and accruals resulting in positive adjustments to working capital. Timing differences in payments for clinical trial expenses is likely to account for that. Accordingly, we have increased our Trade payables and accruals balance.
- We had expected results from the Phase I DEP docetaxel trial in FY16. The timeline for the results has moved with SPL now in the expansion phase of the trial. We now assume that the Top-line results will be available in 4QCY16. We now expect that a Phase II trial is likely to start in 1HCY17 (was 2HCY16). Hence, our launch timelines have moved for DEP docetaxel to FY22 (was FY21). We now expect a licensing deal for DEP docetaxel to be inked in 1HFY19 (was 2HFY18). Accordingly, the related upfronts and milestones have moved.
- We now expect approval of VivaGel for Prevention of Recurrence of BV product in 1HFY18 (was 2HFY17). This is due to our revised expectation that the results from the two ongoing Phase III trials will be released towards the end of CY16, with likely filing for approval in 2HFY17. Our milestone receipt timelines have shifted accordingly. We now expect launch of the R-BV product in 2HFY18 instead of 1HFY18. Accordingly we have reduced our market penetration rates for launch year.
- We now expect launch of VivaGel coated condom by Okamoto in Japan in 2HFY17 (was 1HFY17).
- We now assume that SPL licenses its agrochemicals program dendrimer-glyphosate in FY18 (was FY17). Accordingly we now expect the launch by a potential partner and royalty revenues to SPL to flow in from FY18 (was FY17).
- We have updated our model with revised BPe USD/AUD currency assumptions for 2016 onwards (0.73-0.75).
- We have increased our R&D forecasts based on revised currency estimates and changed timelines related to DEP docetaxel phase I and Phase II trials.
- We have rolled forward our DCF model.

We value SPL at $1.07/sh

Our revised assumptions regarding timelines for upfront and milestone payments and first sales, increased R&D costs and revised currency estimates, partially offset by rolling forward of our DCF model, has resulted in our valuation for SPL reducing marginally to A$1.07/sh (was A$1.12/sh). Our NPAT est. changed as follows 0% FY16, -134% FY17 and -31% FY18. **We retain our Buy (Speculative) recommendation.**

Table 1 - Key Changes to our FY16-18 Forecasts

	FY2016E			FY2017E			FY2018E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	7.7	7.7	0%	36.7	19.6	-46%	42.6	35.1	-18%
Interest Income	0.8	0.7	-13%	1.3	0.9	-29%	1.8	1.1	-40%
R&D	26.0	26.0	0%	14.5	19.6	-35%	9.5	10.5	-10%
G&A	3.5	3.4	3%	4.2	4.2	0%	4.5	4.5	0%
EBITDA	-21.8	-21.7	0%	18.0	-4.2	-123%	28.6	20.1	-30%
EBIT	-22.9	-22.8	0%	16.9	-5.2	-131%	27.6	19.0	-31%
NPAT (adjusted)	-22.1	-22.1	0%	12.7	-4.3	-134%	20.5	14.1	-31%
Adjusted Diluted EPS	-6.4	-6.4	0%	3.4	-1.2	-134%	5.5	3.8	-31%

ALL AMOUNTS IN AUD IN MILLIONS EXCEPT EPS. SOURCE: BELL POTTER SECURITIES ESTIMATES

Our DCF valuation model is based on a WACC of 16.0% and a terminal growth rate of 1%.

Table 2 - Summary of Valuation

Forecasts	Base case
Enterprise Value from DCF (AUDm)	357.1
Add: Reported Cash (AUDm)	46.0
Less: Debt (AUDm)	0.0
Equity Value (AUDm)	403.0
Total diluted shares (million)	375.1
Value per share (AUD)	**$1.07**
Current Share price (AUD)	$0.69
Expected Capital Growth	56.2%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Table 3 - 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%	$45	**$0.12**	11.2%
VivaGel BV Prevention of Recurrence	Phase III	2018	25.0%	$647	44.0%	$189	**$0.51**	47.0%
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%	$82	**$0.22**	20.4%
DEP Docetaxel (first solid tumour)	Phase I	2022	15.0%	$515	15.0%	$46	**$0.12**	11.3%
AZN DEP Cancer Drug (lead)	Pre-clinical	2024	NA	NA	NA	$27	**$0.07**	6.7%
Dendrimer-Glyphosate	Field Trials ongoing	2018	10.0%	$798	15.0%	$18	**$0.05**	4.6%
Priostar-2,4-D	Pre Regulatory Submission	2019 (US)	20.0%	$62	45.0%	$3	**$0.01**	0.8%
Diagnostics/Laboratory Reagents	On-market	NA	NA	NA	NA	$5	**$0.01**	1.2%
Other Pipeline/Non-allocated	NA	NA	NA	NA	NA	-$64	**-$0.17**	-15.8%
Cash (last reported)	NA	NA	NA	NA	NA	$46	**$0.12**	11.4%
Debt (last reported)	NA	NA	NA	NA	NA	-$0.0	**$0.00**	0.0%
Equity Value						**$403.0**	**$1.07**	**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 4 - 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	2019	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	2018	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 other internal candidate from drug-delivery including DEP cabazitaxel or DEP 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. 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, SPL 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:

- **2QFY17 – Top-line results from Phase I DEP docetaxel trial (dose escalation and expansion phase);**
- 1HFY17 - Additional regulatory approvals for VivaGel for symptomatic relief of Bacterial Vaginosis (BV) in Ex-US markets;
- **1HFY17- Launch of VivaGel OTC (Over the counter) product for symptomatic relief of BV by Aspen in ANZ;**
- **2QFY17 - Results from the two Phase III trials of VivaGel for Prevention of Recurrence of Bacterial Vaginosis;**
- 1HFY17 - Completion of IND enabling studies with first DEP AstraZeneca drug under partnership triggering a milestone payment to SPL;
- 1HFY17 - Licensing deal for VivaGel OTC product for BV with upfronts and milestones;
- 1HFY17 - Additional regulatory approvals for VivaGel coated condom (VCC) in markets under agreement with Ansell;
- **2HFY17 – Potential initiation of Phase I trial with first DEP AstraZeneca drug under partnership triggering a milestone payment to SPL;**
- **2HFY17 – Potential initiation of Phase II clinical trial for DEP docetaxel;**
- **2HFY17 – Potential licensing deal for VivaGel for prevention of recurrence of BV;**
- 2HFY17 - Launch of VivaGel coated condom in Japan by Okamoto;

In addition, we expect that over the next 12 months SPL's partnership with AstraZeneca in drug delivery could be expanded further, to include new DEP programs beyond the existing license agreement.

Also in FY17, we expect SPL to finalise and disclose the terms for a commercial licensing agreement for the supply of VivaGel condom to the government segment in China. We note that SPL has already signed a Memorandum of Understanding (MOU) with a Chinese company for it which outlines commercial terms etc. (undisclosed to the market as yet) and the companies are progressing dialogue towards finalising a binding commercial deal.

We also believe there is a strong likelihood of additional partnerships for the VivaGel Coated condom for regions affected by Zika virus infection and not under agreement with Ansell in FY17.

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 ~30.2%.

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$46.0m 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 18 July 2016

Recommendation	Buy, Speculative
Price	$0.685
Valuation	$1.07

Table 5 - Financial summary

Starpharma (SPL) — **Share price (A$)** **$0.685**
As at 18 July 2016 — **Market cap (A$m)** **251.5**

Profit and Loss

Y/e June 30 (A$m)	2014A	2015A	2016E	2017E	2018E
Revenue*	4.5	4.3	7.7	19.6	35.1
EBITDA	**-14.5**	**-18.6**	**-21.7**	**-4.2**	**20.1**
Depreciation & Amortisation	-1.1	-1.2	-1.0	-1.0	-1.0
EBIT	**-15.6**	**-19.8**	**-22.8**	**-5.2**	**19.0**
Net interest & Other Income/(Expense)	1.0	0.9	0.7	0.9	1.1
Pre-tax profit (loss)	-14.6	-19.0	-22.1	-4.3	20.1
Tax	0.0	0.0	0.0	0.0	6.0
NPAT (adjusted)	-14.6	-19.0	-22.1	-4.3	14.1
Less minority interests	0.0	0.0	0.0	0.0	0.0
Net profit (loss) to shareholders	**-14.6**	**-19.0**	**-22.1**	**-4.3**	**14.1**
Reported net profit (loss) to shareholders	-14.6	-19.0	-22.1	-4.3	14.1

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

Valuation data

Y/e June 30	2014A	2015A	2016E	2017E	2018E
Net profit (A$m)	-14.6	-19.0	-22.1	-4.3	14.1
EPS (c)	-5.1	-6.1	-6.4	-1.2	3.8
EPS growth (%)	N/A	N/A	N/A	N/A	NM
P/E ratio (x)	N/A	N/A	N/A	N/A	18.2
CFPS (c)	-3.5	-4.4	-5.2	-0.8	5.3
Price/CF (x)	-19.9	-15.6	-13.2	-90.8	12.8
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	-14.2	-11.0	-9.5	-49.4	10.2
EV/EBIT	-13.2	-10.4	-9.0	-39.5	10.8

Cashflow

Y/e June 30 (A$m)	2014A	2015A	2016E	2017E	2018E
Reported NPAT plus discontinued ops.	-14.6	-19.0	-22.1	-4.3	14.1
Non-cash items	2.5	2.0	2.3	2.4	2.4
Working capital	2.3	3.3	2.0	-0.9	3.5
Other operating cash flow	0.0	0.0	0.0	0.0	0.0
Operating cashflow	**-9.8**	**-13.6**	**-17.8**	**-2.8**	**20.0**
Capex	-0.3	-0.7	-0.1	-0.1	-0.1
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**	**0.0**	**-0.1**	**-0.1**
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**	**14.8**	**-3.0**	**19.8**
Cash at end of period*	24.0	30.8	46.0	43.0	62.8
* Includes effect of exchange rate fluctuations on cash balance					
Free cash flow	**-10.1**	**-14.3**	**-17.9**	**-3.0**	**19.8**

Share price now	$0.685
Valuation:	$1.07
Premium (discount) to price	56.2%
Recommendation:	Buy
Risk Rating	Speculative

Profitability ratios

Y/e June 30	2014A	2015A	2016E	2017E	2018E
EBITDA/revenue (%)	N/A	N/A	N/A	N/A	57.3%
EBIT/revenue (%)	N/A	N/A	N/A	N/A	54.3%
Return on assets (%)	-39.7%	-42.7%	-37.7%	-7.9%	20.0%
Return on equity (%)	-44.4%	-50.5%	-44.0%	-9.1%	22.4%
Return on funds empl'd (%)	-44.3%	-50.4%	-44.0%	-9.1%	22.4%
Dividend cover (x)	N/A	N/A	N/A	N/A	N/A
Effective tax rate (%)	0.0%	0.0%	0.0%	0.0%	30.0%

Liquidity and leverage ratios

Y/e June 30	2014A	2015A	2016E	2017E	2018E
Net cash (debt) (A$m)	24.0	30.8	46.0	43.0	62.8
Net debt/equity (%)	N/A	N/A	N/A	N/A	N/A
Net interest cover (x)	N/A	N/A	N/A	N/A	NM
Current ratio (x)	7.4	5.2	6.0	6.3	8.3

Balance sheet

Y/e June 30 (A$m)	2014A	2015A	2016E	2017E	2018E
Cash	24.0	30.8	46.0	43.0	62.8
Current receivables	4.4	4.0	3.7	3.7	0.4
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**	**49.8**	**46.9**	**63.5**
PPE	0.5	0.9	0.6	0.5	0.4
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**	**8.7**	**7.8**	**6.9**
Total assets	**36.9**	**44.4**	**58.5**	**54.7**	**70.4**
Payables	3.1	5.9	7.6	6.7	6.9
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**	**8.4**	**7.5**	**7.7**
Shareholders' equity	33.0	37.6	50.1	47.2	62.7
Minorities	0.0	0.0	0.0	0.0	0.0
Total shareholders funds	**33.0**	**37.6**	**50.1**	**47.2**	**62.7**
Total funds employed	**36.9**	**44.4**	**58.5**	**54.7**	**70.4**
W/A shares on issue	284.4	310.1	343.1	374.3	373.9

Interims

Y/e June 30 (A$m)	1H15A	2H15A	1H16A	2H16E	1H17E
Revenue*	1.9	2.4	5.3	2.3	4.6
EBITDA	-8.4	-10.2	-9.8	-12.0	-8.8
Depreciation & Amortisation	-0.6	-0.6	-0.5	-0.6	-0.6
EBIT	-9.0	-10.8	-10.2	-12.5	-9.5
Net interest & Other Income (Expense)	0.5	0.4	0.2	0.5	0.4
Pre-tax profit	-8.5	-10.4	-10.0	-12.0	-9.1
Tax	0.0	0.0	0.0	0.0	0.0
NPAT (adjusted)	-8.5	-10.4	-10.0	-12.0	-9.1
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	-9.1
*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.

Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
TS Lim	Head of Research	612 8224 2810	tslim
Industrials			
Sam Haddad	Industrials	612 8224 2819	shaddad
John O'Shea	Industrials	613 9235 1633	joshea
Chris Savage	Industrials	612 8224 2835	csavage
Jonathan Snape	Industrials	613 9235 1601	jsnape
Sam Byrnes	Industrials	612 8224 2886	sbyrnes
John Hester	Healthcare	612 8224 2871	jhester
Tanushree Jain	Healthcare/Biotech	612 8224 2849	tnjain
Financials			
TS Lim	Banks/Regionals	612 8224 2810	tslim
Lafitani Sotiriou	Diversified	613 9235 1668	lsotiriou
Resources			
Peter Arden	Resources	613 9235 1833	parden
David Coates	Resources	612 8224 2887	dcoates
Associates			
Hamish Murray	Associate Analyst	613 9256 8761	hmurray
Tim Piper	Associate Analyst	612 8224 2825	tpiper

Bell Potter Securities Limited
ACN 25 006 390 7721
Level 38, Aurora Place
88 Phillip Street, Sydney 2000
Telephone +61 2 9255 7200
www.bellpotter.com.au