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**Recommendation**  
**Buy** (unchanged)  
**Price**  
**\$0.73**  
**Valuation**  
**\$1.07** (unchanged)  
**Risk**  
**Speculative**

**GICS Sector**  
**Pharmaceuticals & Biotechnology**

**Expected Return**

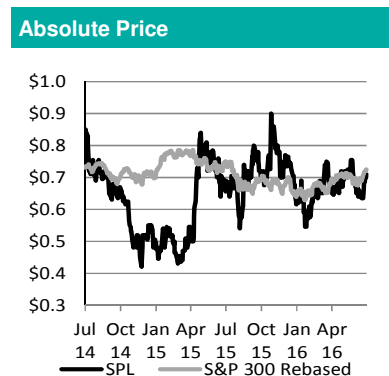
Capital growth	46.6%
Dividend yield	0.0%
Total expected return	46.6%

**Company Data & Ratios**

Enterprise value	\$222.0m
Market cap	\$268.0m
Issued capital	367.11m
Free float	100%
Avg. daily val. (52wk)	\$308,441
12 month price range	\$0.535 - \$0.98

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	0.70	0.68	0.69
Absolute (%)	1.43	4.41	2.90
Rel market (%)	-5.22	-2.92	5.64



SOURCE: IRESS

**Speculative**  
See Key risks on Page 3 & Biotechnology Risk Warning on Page 5  
Speculative securities may not be suitable for Retail clients

## Starpharma (SPL)

### Deal finalised for VivaGel condom for government market in China

#### SPL collaborates with Sky and Land on VivaGel for China

SPL has signed a license and supply agreement with Shenyang Sky and Land Latex Co. for its VivaGel coated condom (VCC), for the government segment of the Chinese condom market. The deal follows the initial MOU signed in Dec'15. The Chinese government purchases ~3bn condoms/yr at low price (est. CNY 0.15-0.50 per piece) for free distribution, from designated enterprises through tenders. These are used for birth control and prevention against STI's. Sky and Land is one of these designated enterprises which manufactures and supplies latex condoms to the Chinese government. Financial terms of the deal were not disclosed. We expect that the deal is likely to involve SPL supplying the VivaGel active at a transfer price and consider it unlikely to have any royalty arrangements, given complexities involved in tracking sales progress in China. Sky and Land will manufacture its VCC and will be responsible for related regulatory and sales activities. Activities related to obtaining regulatory approval in China have commenced. The process could take several months and at this stage it is difficult to estimate a timeline for approval and launch.

#### Deal expands opportunity for VivaGel coated condoms

The deal is important for SPL in our view as a) It expands opportunity of VCC to a new market (not under existing licenses); b) The high volume albeit low price market represents future revenue opportunity. Sky and Land could grow its market share in the government segment with a unique antiviral condom; c) The commercial Chinese condom market is much larger, fast growing, with high demand for foreign brands and is under SPL's existing license with Ansell. Sky and Land is better placed to navigate regulatory pathway for the VCC in China. We believe once it's approved and listed in China, Ansell could potentially have a much faster path to market in the commercial segment with an equivalent latex condom coated with same VivaGel active.

#### Maintain Buy and Valuation of \$1.07

No changes to earnings. We retain Buy and DCF valuation of A\$1.07/sh. Key catalyst - Top-line results from Phase I DEP docetaxel trial and from Phase III prevention of recurrence of bacterial vaginosis trials in 4QCY16.

**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	19.4
EV/EBITDA (x)	-15.3	-11.9	-10.2	-53.3	11.1
Dividend (cps)	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

## 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.

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.

Table 1 - Financial summary

Starpharma (SPL)						Share price (A\$)	\$0.730				
As at 21 July 2016						Market cap (A\$m)	268.0				
<b>Profit and Loss</b>						<b>Valuation data</b>					
<b>Y/e June 30 (A\$m)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>Y/e June 30</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
Revenue*	4.5	4.3	7.7	19.6	35.1	Net profit (A\$m)	-14.6	-19.0	-22.1	-4.3	14.1
<b>EBITDA</b>	<b>-14.5</b>	<b>-18.6</b>	<b>-21.7</b>	<b>-4.2</b>	<b>20.1</b>	EPS (c)	-5.1	-6.1	-6.4	-1.2	3.8
Depreciation & Amortisation	-1.1	-1.2	-1.0	-1.0	-1.0	<i>EPS growth (%)</i>	N/A	N/A	N/A	N/A	NM
<b>EBIT</b>	<b>-15.6</b>	<b>-19.8</b>	<b>-22.8</b>	<b>-5.2</b>	<b>19.0</b>	P/E ratio (x)	N/A	N/A	N/A	N/A	19.4
Net interest & Other Income/(Expense)	1.0	0.9	0.7	0.9	1.1	CFPS (c)	-3.5	-4.4	-5.2	-0.8	5.3
Pre-tax profit (loss)	-14.6	-19.0	-22.1	-4.3	20.1	Price/CF (x)	-21.2	-16.6	-14.1	-96.7	13.7
Tax	0.0	0.0	0.0	0.0	6.0	DPS (c)	0.0	0.0	0.0	0.0	0.0
NPAT (adjusted)	-14.6	-19.0	-22.1	-4.3	14.1	<i>Yield (%)</i>	0.0%	0.0%	0.0%	0.0%	0.0%
Less minority interests	0.0	0.0	0.0	0.0	0.0	Franking (%)	N/A	N/A	N/A	N/A	N/A
<b>Net profit (loss) to shareholders</b>	<b>-14.6</b>	<b>-19.0</b>	<b>-22.1</b>	<b>-4.3</b>	<b>14.1</b>	EV/EBITDA	-15.3	-11.9	-10.2	-53.3	11.1
Reported net profit (loss) to shareholders	-14.6	-19.0	-22.1	-4.3	14.1	EV/EBIT	-14.2	-11.2	-9.8	-42.7	11.7
* Including R&D tax incentive and royalties. FY 17 Revenue number includes potential upfront from VivaGel BV symptomatic relief deal and from BV prevention of recurrence deal and milestone from AZN deal, FY 18 revenue number includes potential milestone from BV prevention of recurrence and AZN deals.											
<b>Cashflow</b>						<b>Share price now</b> \$0.730					
<b>Y/e June 30 (A\$m)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>Valuation:</b>	\$1.07				
Reported NPAT plus discontinued ops.	-14.6	-19.0	-22.1	-4.3	14.1	<i>Premium (discount) to price</i>	46.6%				
Non-cash items	2.5	2.0	2.3	2.4	2.4	<b>Recommendation:</b>	Buy				
Working capital	2.3	3.3	2.0	-0.9	3.5	<b>Risk Rating</b>	Speculative				
Other operating cash flow	0.0	0.0	0.0	0.0	0.0	<b>Profitability ratios</b>					
<b>Operating cashflow</b>	<b>-9.8</b>	<b>-13.6</b>	<b>-17.8</b>	<b>-2.8</b>	<b>20.0</b>	<b>Y/e June 30</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
Capex	-0.3	-0.7	-0.1	-0.1	-0.1	EBITDA/revenue (%)	N/A	N/A	N/A	N/A	57.3%
Investments	0.0	0.0	0.0	0.0	0.0	<b>EBIT/revenue (%)</b>	N/A	N/A	N/A	N/A	54.3%
Other investing cash flow	0.0	0.0	0.1	0.0	0.0	Return on assets (%)	-39.7%	-42.7%	-37.7%	-7.9%	20.0%
<b>Investing cashflow</b>	<b>-0.3</b>	<b>-0.7</b>	<b>0.0</b>	<b>-0.1</b>	<b>-0.1</b>	Return on equity (%)	-44.4%	-50.5%	-44.0%	-9.1%	22.4%
Change in borrowings	0.0	0.0	0.0	0.0	0.0	Return on funds empl'd (%)	-44.3%	-50.4%	-44.0%	-9.1%	22.4%
Equity issued	0.2	20.5	32.6	0.0	0.0	Dividend cover (x)	N/A	N/A	N/A	N/A	N/A
Dividends paid	0.0	0.0	0.0	0.0	0.0	Effective tax rate (%)	0.0%	0.0%	0.0%	0.0%	30.0%
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	<b>Liquidity and leverage ratios</b>					
<b>Financing cashflow</b>	<b>0.2</b>	<b>20.5</b>	<b>32.6</b>	<b>0.0</b>	<b>0.0</b>	<b>Y/e June 30</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>
<b>Net change in cash</b>	<b>-9.9</b>	<b>6.2</b>	<b>14.8</b>	<b>-3.0</b>	<b>19.8</b>	Net cash (debt) (A\$m)	24.0	30.8	46.0	43.0	62.8
<b>Cash at end of period*</b>	<b>24.0</b>	<b>30.8</b>	<b>46.0</b>	<b>43.0</b>	<b>62.8</b>	<b>Net debt/equity (%)</b>	N/A	N/A	N/A	N/A	N/A
* Includes effect of exchange rate fluctuations on cash balance											
<b>Free cash flow</b>	<b>-10.1</b>	<b>-14.3</b>	<b>-17.9</b>	<b>-3.0</b>	<b>19.8</b>	Net interest cover (x)	N/A	N/A	N/A	N/A	NM
<b>Balance sheet</b>						Current ratio (x)	7.4	5.2	6.0	6.3	8.3
<b>Y/e June 30 (A\$m)</b>	<b>2014A</b>	<b>2015A</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</b>	<b>Interims</b>					
Cash	24.0	30.8	46.0	43.0	62.8	<b>Y/e June 30 (A\$m)</b>	<b>1H15A</b>	<b>2H15A</b>	<b>1H16A</b>	<b>2H16E</b>	<b>1H17E</b>
Current receivables	4.4	4.0	3.7	3.7	0.4	Revenue*	1.9	2.4	5.3	2.3	4.6
Inventories	0.0	0.0	0.0	0.0	0.0	<b>EBITDA</b>	-8.4	-10.2	-9.8	-12.0	-8.8
Other current assets	0.2	0.2	0.2	0.2	0.2	Depreciation & Amortisation	-0.6	-0.6	-0.5	-0.6	-0.6
<b>Current assets</b>	<b>28.6</b>	<b>35.1</b>	<b>49.8</b>	<b>46.9</b>	<b>63.5</b>	<b>EBIT</b>	-9.0	-10.8	-10.2	-12.5	-9.5
PPE	0.5	0.9	0.6	0.5	0.4	Net interest & Other Income (Expense)	0.5	0.4	0.2	0.5	0.4
Non-current receivables	0.0	0.0	0.0	0.0	0.0	Pre-tax profit	-8.5	-10.4	-10.0	-12.0	-9.1
Intangible assets	7.8	8.4	8.0	7.3	6.5	Tax	0.0	0.0	0.0	0.0	0.0
Other non-current assets	0.0	0.0	0.0	0.0	0.0	NPAT (adjusted)	-8.5	-10.4	-10.0	-12.0	-9.1
<b>Non-current assets</b>	<b>8.3</b>	<b>9.3</b>	<b>8.7</b>	<b>7.8</b>	<b>6.9</b>	Less minority interests	0.0	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>36.9</b>	<b>44.4</b>	<b>58.5</b>	<b>54.7</b>	<b>70.4</b>	<b>Net profit to shareholders</b>	-8.5	-10.4	-10.0	-12.0	-9.1
Payables	3.1	5.9	7.6	6.7	6.9	*Includes R&D Tax incentive					
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						
<b>Total liabilities</b>	<b>3.9</b>	<b>6.8</b>	<b>8.4</b>	<b>7.5</b>	<b>7.7</b>						
Shareholders' equity	33.0	37.6	50.1	47.2	62.7						
Minorities	0.0	0.0	0.0	0.0	0.0						
<b>Total shareholders funds</b>	<b>33.0</b>	<b>37.6</b>	<b>50.1</b>	<b>47.2</b>	<b>62.7</b>						
<b>Total funds employed</b>	<b>36.9</b>	<b>44.4</b>	<b>58.5</b>	<b>54.7</b>	<b>70.4</b>						
<b>W/A shares on issue</b>	<b>284.4</b>	<b>310.1</b>	<b>343.1</b>	<b>374.3</b>	<b>373.9</b>						

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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Disclosure: Bell Potter Securities acted as lead manager in the October 2011 and September 2014 placement and joint lead manager in the December 2015 placement and received fees for that service.

**Biotechnology Risk Warning:**

The stocks of biotechnology companies without strong revenue streams from product sales or ongoing service revenue should always be regarded as speculative in character. Since most biotechnology companies fit this description, the speculative designation also applies to the entire sector. The fact that the intellectual property base of a typical biotechnology company lies in science not generally regarded as accessible to the layman adds further to the riskiness with which biotechnology investments ought to be regarded. **Stocks with 'Speculative' designation are prone to high volatility in share price movements.** Clinical and regulatory risks are inherent in biotechnology stocks. Biotechnology developers usually seek US FDA approval for their technology which is a long and arduous three phase process to prove the safety, effectiveness and appropriate application or use of the developed drug and even after approval a drug can be the subject of an FDA investigation of subsequently discovered possible links between the drug and other diseases not previously diagnosed. Furthermore, the Australian exchange listed biotechnology sector is subject to influence by the global biotechnology sector, particularly that in the USA. Consequently, Australian exchange listed biotechnology stocks can experience sharp movements, both upwards and downwards, in both valuations and share prices, as a result of a re-rating of the sector both globally and in the USA, in particular. Investors are advised to be cognisant of these risks before buying such a stock including Starpharma. **For a list of risks specific to Starpharma please refer to Page 3 of this note.**

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