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Recommendation
Buy (unchanged)
Price
\$0.69
Valuation
\$1.07 (unchanged)
Risk
Speculative

GICS Sector
Pharmaceuticals & Biotechnology

Expected Return

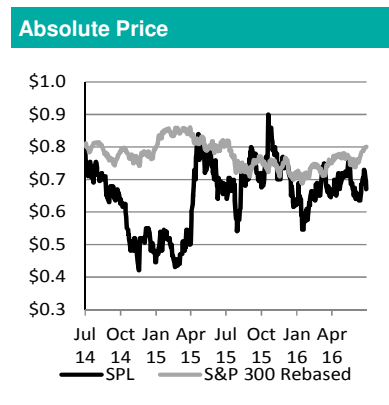
Capital growth	55.1%
Dividend yield	0.0%
Total expected return	55.1%

Company Data & Ratios

Enterprise value	\$207.3m
Market cap	\$253.3m
Issued capital	367.11m
Free float	100%
Avg. daily val. (52wk)	\$317,628
12 month price range	\$0.535 - \$0.98

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.67	0.66	0.68
Absolute (%)	0.00	1.52	-0.74
Rel market (%)	-4.92	-3.67	-0.24



SOURCE: IRESS

Starpharma (SPL)

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

AZN and SPL collaborate on new DEP program

SPL collaborates with AZN on new DEP program

SPL announced today that it has entered into a new collaboration agreement with its existing partner AstraZeneca (AZN). Under this agreement, SPL's DEP technology will be applied to a new compound in AZN's pipeline. This compound is not under the scope of the licensing agreement inked between the two companies in Sep'15 which covered a defined family of oncology targets. The molecular target or indication of the new compound have not been disclosed, however we believe it's likely to be a small molecule and not a biologic. We expect that SPL will now commence work to develop DEP enhanced versions of this AZN compound. We expect that AZN could be in a position to select DEP-enhanced versions of the molecule to progress them into feasibility studies in animal models within the next 12-18 months. While this is not a commercial licensing agreement at this stage, we strongly believe it can lead to one in the future, should the feasibility studies yield positive results. We note that previously it took 3 years for the initial collaboration between AZN/SPL to progress to a commercial licensing deal. However, given AZN's experience now with the DEP technology, we believe AZN/SPL could leverage of the learnings during the initial process to accelerate the timelines for assessment this time around.

Vote of confidence from AZN validates SPL's DEP platform

We view this expanded relationship between AZN/SPL as a strong endorsement from AZN and a further validation of SPL's DEP drug delivery platform. It is indicative of AZN's deep interest in SPL's DEP technology and also suggests that the initial partnership between the two companies on oncology compounds is progressing well. We believe AZN as a partner is a good strategic fit for SPL and their deepening ties bodes well for long term collaboration between them. We view the agreement today as a source of future cash injection, should it progress to a commercial licensing deal.

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	18.3
EV/EBITDA (x)	-14.3	-11.1	-9.5	-49.8	10.3
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 12-18 months SPL's collaboration with AstraZeneca on the new DEP program announced today, could advance to a commercial licensing 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.

Table 1 - Financial summary

Starpharma (SPL)						Share price (A\$)	\$0.690				
As at 28 July 2016						Market cap (A\$m)	253.3				
Profit and Loss						Valuation data					
Y/e June 30 (A\$m)	2014A	2015A	2016E	2017E	2018E	Y/e June 30	2014A	2015A	2016E	2017E	2018E
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
EBITDA	-14.5	-18.6	-21.7	-4.2	20.1	EPS (c)	-5.1	-6.1	-6.4	-1.2	3.8
Depreciation & Amortisation	-1.1	-1.2	-1.0	-1.0	-1.0	EPS growth (%)	N/A	N/A	N/A	N/A	NM
EBIT	-15.6	-19.8	-22.8	-5.2	19.0	P/E ratio (x)	N/A	N/A	N/A	N/A	18.3
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)	-20.0	-15.7	-13.3	-91.4	12.9
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	Yield (%)	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
Net profit (loss) to shareholders	-14.6	-19.0	-22.1	-4.3	14.1	EV/EBITDA	-14.3	-11.1	-9.5	-49.8	10.3
Reported net profit (loss) to shareholders	-14.6	-19.0	-22.1	-4.3	14.1	EV/EBIT	-13.3	-10.5	-9.1	-39.9	10.9
* 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.											
Cashflow						Share price now					
Y/e June 30 (A\$m)	2014A	2015A	2016E	2017E	2018E	Share price now	\$0.690				
Reported NPAT plus discontinued ops.	-14.6	-19.0	-22.1	-4.3	14.1	Valuation:	\$1.07				
Non-cash items	2.5	2.0	2.3	2.4	2.4	Premium (discount) to price	55.1%				
Working capital	2.3	3.3	2.0	-0.9	3.5	Recommendation:	Buy				
Other operating cash flow	0.0	0.0	0.0	0.0	0.0	Risk Rating	Speculative				
Operating cashflow	-9.8	-13.6	-17.8	-2.8	20.0	Profitability ratios					
Capex	-0.3	-0.7	-0.1	-0.1	-0.1	Y/e June 30	2014A	2015A	2016E	2017E	2018E
Investments	0.0	0.0	0.0	0.0	0.0	EBITDA/revenue (%)	N/A	N/A	N/A	N/A	57.3%
Other investing cash flow	0.0	0.0	0.1	0.0	0.0	EBIT/revenue (%)	N/A	N/A	N/A	N/A	54.3%
Investing cashflow	-0.3	-0.7	0.0	-0.1	-0.1	Return on assets (%)	-39.7%	-42.7%	-37.7%	-7.9%	20.0%
Change in borrowings	0.0	0.0	0.0	0.0	0.0	Return on equity (%)	-44.4%	-50.5%	-44.0%	-9.1%	22.4%
Equity issued	0.2	20.5	32.6	0.0	0.0	Return on funds empl'd (%)	-44.3%	-50.4%	-44.0%	-9.1%	22.4%
Dividends paid	0.0	0.0	0.0	0.0	0.0	Dividend cover (x)	N/A	N/A	N/A	N/A	N/A
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	Effective tax rate (%)	0.0%	0.0%	0.0%	0.0%	30.0%
Financing cashflow	0.2	20.5	32.6	0.0	0.0	Liquidity and leverage ratios					
Net change in cash	-9.9	6.2	14.8	-3.0	19.8	Y/e June 30	2014A	2015A	2016E	2017E	2018E
Cash at end of period*	24.0	30.8	46.0	43.0	62.8	Net cash (debt) (A\$m)	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	Net debt/equity (%)	N/A	N/A	N/A	N/A	N/A
Balance sheet						Net interest cover (x)	N/A	N/A	N/A	N/A	NM
Y/e June 30 (A\$m)	2014A	2015A	2016E	2017E	2018E	Current ratio (x)	7.4	5.2	6.0	6.3	8.3
Cash	24.0	30.8	46.0	43.0	62.8	Interims					
Current receivables	4.4	4.0	3.7	3.7	0.4	Y/e June 30 (A\$m)	1H15A	2H15A	1H16A	2H16E	1H17E
Inventories	0.0	0.0	0.0	0.0	0.0	Revenue*	1.9	2.4	5.3	2.3	4.6
Other current assets	0.2	0.2	0.2	0.2	0.2	EBITDA	-8.4	-10.2	-9.8	-12.0	-8.8
Current assets	28.6	35.1	49.8	46.9	63.5	Depreciation & Amortisation	-0.6	-0.6	-0.5	-0.6	-0.6
PPE	0.5	0.9	0.6	0.5	0.4	EBIT	-9.0	-10.8	-10.2	-12.5	-9.5
Non-current receivables	0.0	0.0	0.0	0.0	0.0	Net interest & Other Income (Expense)	0.5	0.4	0.2	0.5	0.4
Intangible assets	7.8	8.4	8.0	7.3	6.5	Pre-tax profit	-8.5	-10.4	-10.0	-12.0	-9.1
Other non-current assets	0.0	0.0	0.0	0.0	0.0	Tax	0.0	0.0	0.0	0.0	0.0
Non-current assets	8.3	9.3	8.7	7.8	6.9	NPAT (adjusted)	-8.5	-10.4	-10.0	-12.0	-9.1
Total assets	36.9	44.4	58.5	54.7	70.4	Less minority interests	0.0	0.0	0.0	0.0	0.0
Payables	3.1	5.9	7.6	6.7	6.9	Net profit to shareholders	-8.5	-10.4	-10.0	-12.0	-9.1
Debt	0.1	0.0	0.0	0.0	0.0	*Includes R&D Tax incentive					
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						

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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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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