BELL POTTER

13 September 2016

Speculative

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

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Starpharma (SPL)

VivaGel coated condom wins approval in Canada

Recommendation
Buy (unchanged)
Price
$0.655
Valuation
$1.05 (unchanged)
Risk
Speculative

GICS Sector

Pharmaceuticals & Biotechnology

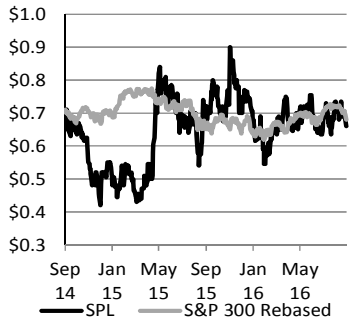
Expected Return	
Capital growth	**60.3%**
Dividend yield	**0.0%**
Total expected return	**60.3%**

Company Data & Ratios	
Enterprise value	**$194.5m**
Market cap	**$240.5m**
Issued capital	**367.11m**
Free float	**100%**
Avg. daily val. (52wk)	**$320,071**
12 month price range	**$0.535 - $0.98**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.69	0.72	0.70
Absolute (%)	-3.65	-7.69	-5.71
Rel market (%)	2.32	-4.99	-8.21

Absolute Price



SOURCE: IRESS

Canada to be second launch market for SPL/Ansell's VCC

Starpharma has received marketing approval for its VivaGel coated condom (VCC) from Health Canada. The Medical Device License (MDL) allows its partner Ansell to sell the anti-viral product under the Lifestyles Dual Protect Brand. Ansell plans to launch the product in Canada in the near future (BPe early CY17). From 14th Sep'16 the product will be available for pre-order by Canadian customers from the 'lifestyles.com' website. Ansell is responsible for manufacturing and launch of the product and will bear all commercialization costs. SPL will be paid double digit royalties (BPe ~12%). We note that Ansell has flagged a potential sale of its sexual wellness division and have appointed Goldman Sachs to assist them. New product approvals and launches should help to increase the attractiveness of the division. We expect additional regulatory approvals for VCC in markets licensed to Ansell in FY17.

Canada becomes the third market under the partnership where regulatory approval for VCC has been secured. The other two markets are Australia and New Zealand. It was launched in Australia in late Oct'14. However, Ansell is yet to launch the product in NZ. Canada will therefore become the second market where Ansell launches the product.

New market launches will grow royalty revenues for SPL

We estimate that SPL is currently earning less than A$1m in royalty revenues from Ansell. We expect royalty revenues will grow over time as the product launches in additional markets (starting with Canada) and adoption increases at the back of marketing. Canada provides the first entry point in North America for the product, with approval and launch in the much larger US market expected to follow (BPe 1HFY18).

Retain Buy and Valuation of $1.05

No changes to earnings. We retain Buy and DCF valuation of A$1.05/sh. **Key catalysts include** a) Results from Phase I DEP docetaxel trial in 4QCY16, b) Results from Phase III R-BV trials by end 4QCY16/early 1QCY17, c) initiation of Phase I trial (1HCY17) with first DEP AstraZeneca drug and d) launch of BV OTC product by Aspen in ANZ in 2HCY16.

Earnings Forecast

Year end 30th June	2015A	2016A	2017E	2018E	2019E
Revenue (A$m)	4.3	7.3	19.6	33.3	18.0
EBITDA (A$m)	-18.6	-22.5	-4.5	18.0	2.5
NPAT (adjusted) (A$m)	-19.0	-22.7	-4.6	12.6	1.9
EPS (adjusted) (cps)	-6.11	-6.57	-1.24	3.38	0.51
EPS growth (%)	N/A	N/A	N/A	NM	-84.8%
PER (x)	N/A	N/A	N/A	19.4	127.4
EV/EBITDA (x)	-10.4	-8.6	-42.8	10.8	78.5
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 (%)	-50.5%	-45.9%	-9.9%	20.8%	3.0%

NOTE: REVENUE INCLUDES R&D TAX INCENTIVES. FY17/ FY18/FY19 REVENUE ALSO INCLUDE POTENTIAL UPFRONT AND MILESTONES FROM VIVAGEL SYMPTOMATIC RELIEF, PREVENTION OF R-BV AND DEP DOCETAXEL 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;**
- **End 2QFY17/early 3QFY17 - Results from the two Phase III trials of VivaGel for Prevention of Recurrence of Bacterial Vaginosis;**
- **1HFY17 - Completion of pre-clinical 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;
- 3QFY17 - Launch of VivaGel coated condom in Canada by 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 in July 2016, could advance to a commercial licensing deal.

Also, we note that activities related to obtaining regulatory approval in China for SPL's VivaGel coated condom for the government segment of the Chinese condom market have commenced. The process could take several months and at this stage it is difficult to estimate a timeline for approval and launch. Assuming the process takes between 10-18 months, there is a possibility for the approval to be received sometime in CY17.

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 before the end of the year. 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.

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 13 September 2016

Recommendation	Buy, Speculative
Price	$0.655
Valuation	$1.05

Table 1 - Financial summary

Starpharma (SPL) — **Share price (A$)** **$0.655**
As at 13 September 2016 — **Market cap (A$m)** **240.5**

Profit and Loss

Y/e June 30 (A$m)	2015A	2016A	2017E	2018E	2019E
Revenue*	4.3	7.3	19.6	33.3	18.0
EBITDA	**-18.6**	**-22.5**	**-4.5**	**18.0**	**2.5**
Depreciation & Amortisation	-1.2	-0.9	-0.9	-1.0	-1.0
EBIT	**-19.8**	**-23.5**	**-5.5**	**17.0**	**1.5**
Net interest & Other Income/(Expense)	0.9	0.8	0.9	1.0	1.2
Pre-tax profit (loss)	-19.0	-22.7	-4.6	18.1	2.7
Tax	0.0	0.0	0.0	5.4	0.8
NPAT (adjusted)	-19.0	-22.7	-4.6	12.6	1.9
Less minority interests	0.0	0.0	0.0	0.0	0.0
Net profit (loss) to shareholders	**-19.0**	**-22.7**	**-4.6**	**12.6**	**1.9**
Reported net profit (loss) to shareholders	-19.0	-22.7	-4.6	12.6	1.9

* Including R&D tax incentive, milestones 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. FY19 revenue number includes potential milestone from BV symptomatic relief deal and upfront from DEP docetaxel deal.

Cashflow

Y/e June 30 (A$m)	2015A	2016A	2017E	2018E	2019E
Reported NPAT plus discontinued ops.	-19.0	-22.7	-4.6	12.6	1.9
Non-cash items	2.0	2.3	2.5	2.6	2.6
Working capital	3.3	2.7	-1.9	3.6	0.1
Other operating cash flow	0.0	-0.1	0.0	0.0	0.0
Operating cashflow	**-13.6**	**-17.8**	**-3.9**	**18.8**	**4.6**
Capex	-0.7	-0.1	-0.1	-0.1	-0.1
Investments	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.0	0.1	0.0	0.0	0.0
Investing cashflow	**-0.7**	**0.0**	**-0.1**	**-0.1**	**-0.1**
Change in borrowings	0.0	0.0	0.0	0.0	0.0
Equity issued	20.5	32.6	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Other financing cash flow	0.0	0.0	0.0	0.0	0.0
Financing cashflow	**20.5**	**32.6**	**0.0**	**0.0**	**0.0**
Net change in cash	**6.2**	**14.8**	**-4.1**	**18.6**	**4.5**
Cash at end of period*	30.8	46.0	41.9	60.5	65.0
* Includes effect of exchange rate fluctuations on cash balance					
Free cash flow	**-14.3**	**-17.9**	**-4.1**	**18.6**	**4.5**

Balance sheet

Y/e June 30 (A$m)	2015A	2016A	2017E	2018E	2019E
Cash	30.8	46.0	41.9	60.5	65.0
Current receivables	4.0	4.1	4.1	0.7	0.8
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	**35.1**	**50.3**	**46.2**	**61.4**	**66.0**
PPE	0.9	0.7	0.5	0.3	0.1
Non-current receivables	0.0	0.0	0.0	0.0	0.0
Intangible assets	8.4	8.1	7.5	6.8	6.2
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Non-current assets	**9.3**	**8.8**	**8.0**	**7.2**	**6.3**
Total assets	**44.4**	**59.0**	**54.1**	**68.6**	**72.3**
Payables	5.9	8.8	6.9	7.1	7.3
Debt	0.0	0.0	0.0	0.0	0.0
Provisions	0.8	0.8	0.8	0.8	0.8
Other liabilities	0.1	0.0	0.0	0.0	0.0
Total liabilities	**6.8**	**9.6**	**7.7**	**7.9**	**8.1**
Shareholders' equity	37.6	49.4	46.4	60.7	64.2
Minorities	0.0	0.0	0.0	0.0	0.0
Total shareholders funds	**37.6**	**49.4**	**46.4**	**60.7**	**64.2**
Total funds employed	**44.4**	**59.0**	**54.1**	**68.6**	**72.3**
W/A shares on issue	310.1	345.0	368.9	373.7	373.1

Valuation data

Y/e June 30	2015A	2016A	2017E	2018E	2019E
Net profit (A$m)	-19.0	-22.7	-4.6	12.6	1.9
EPS (c)	-6.1	-6.6	-1.2	3.4	0.5
EPS growth (%)	N/A	N/A	N/A	NM	-84.8%
P/E ratio (x)	N/A	N/A	N/A	19.4	127.4
CFPS (c)	-4.4	-5.2	-1.1	5.0	1.2
Price/CF (x)	-14.9	-12.7	-61.5	13.0	52.8
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	-10.4	-8.6	-42.8	10.8	78.5
EV/EBIT	-9.8	-8.3	-35.4	11.4	129.3

Share price now	$0.655
Valuation:	$1.05
Premium (discount) to price	60.3%
Recommendation:	Buy
Risk Rating	Speculative

Profitability ratios

Y/e June 30	2015A	2016A	2017E	2018E	2019E
EBITDA/revenue (%)	N/A	N/A	N/A	54.0%	13.8%
EBIT/revenue (%)	N/A	N/A	N/A	51.1%	8.4%
Return on assets (%)	-42.7%	-38.4%	-8.5%	18.4%	2.7%
Return on equity (%)	-50.5%	-45.9%	-9.9%	20.8%	3.0%
Return on funds empl'd (%)	-50.4%	-45.9%	-9.9%	20.8%	3.0%
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	2015A	2016A	2017E	2018E	2019E
Net cash (debt) (A$m)	30.8	46.0	41.9	60.5	65.0
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)	5.2	5.3	6.0	7.8	8.2

Interims

Y/e June 30 (A$m)	2H15A	1H16A	2H16A	1H17E	2H17E
Revenue*	2.4	5.3	2.1	4.6	15.0
EBITDA	-10.2	-9.8	-12.7	-9.0	4.4
Depreciation & Amortisation	-0.6	-0.5	-0.5	-0.7	-0.3
EBIT	-10.8	-10.3	-13.2	-9.6	4.1
Net interest & Other Income (Expense)	0.4	0.3	0.6	0.3	0.7
Pre-tax profit	-10.4	-10.0	-12.6	-9.4	4.8
Tax	0.0	0.0	0.0	0.0	0.0
NPAT (adjusted)	-10.4	-10.0	-12.6	-9.4	4.8
Less minority interests	0.0	0.0	0.0	0.0	0.0
Net profit to shareholders	-10.4	-10.0	-12.6	-9.4	4.8
*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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