BELL POTTER

30 January 2018

Speculative
See Key risks on Page 6 & Biotechnology Risk Warning on Page 8
Speculative securities may not be suitable for Retail clients

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Starpharma (SPL)

Steady progress across VivaGel and DEP portfolio

Recommendation
Buy (unchanged)
Price
$1.57
Valuation
$1.86 (previously $1.78)
Risk
Speculative

GICS Sector

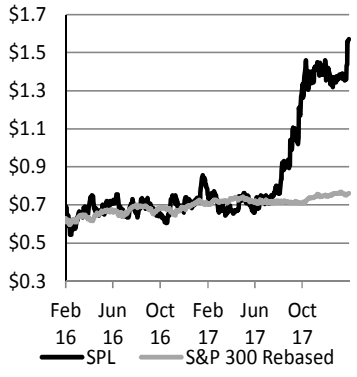
Pharmaceuticals & Biotechnology

Expected Return	
Capital growth	**18.5%**
Dividend yield	**0.0%**
Total expected return	**18.5%**
Company Data & Ratios	
Enterprise value	**$525.0m**
Market cap	**$581.7m**
Issued capital	**370.54m**
Free float	**100%**
Avg. daily val. (52wk)	**$484,264**
12 month price range	**$0.645 - $1.635**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	1.37	1.34	0.83
Absolute (%)	14.60	17.16	89.16
Rel market (%)	14.39	13.96	81.40

Absolute Price



SOURCE: IRESS

Strong cash position with steady pipeline progress

Overall SPL's 2Q18 update suggests steady progress across its VivaGel and DEP portfolio. Cash burn was higher than expected, impacted by a $3.2m NDA submission fee for VivaGel BV, which was refunded by the FDA subsequently in Jan'18. Cash reserves of ~$56.8m (inc. $3.2m NDA fee and $3.7m expected R&D tax rebate), provides ~2.5 years cash runway, with further boost expected from VivaGel BV and DEP deal milestones. 4 of 5 modules of the NDA for VivaGel BV have been submitted, with completion expected in 1QCY18 and approval in 2HCY18. Although a deal for VivaGel is yet to be finalised, discussions have progressed well and deal(s) should be announced later in 1QCY18. Recruitment is progressing in Phase 2 DEP docetaxel trial with 2 UK sites open and 2 to be open shortly. Patients have received multiple cycles of DEP docetaxel at 1 site, with no evidence of neutropenia. Phase 1/2 trial of DEP cabazitaxel is to start recruiting at 2 UK sites imminently.

FY18 to be a transformational year for SPL

FY18 is proving to be a transformational year for SPL with the momentum expected to continue based on significant progress expected across its DEP drug delivery business and approval and licensing of its late stage VivaGel BV product. Key catalysts for 1QCY18 include a) licensing deal for VivaGel BV; b) initiation of Phase 1 trial with SPL/AZN's AZD0466 which triggers a US$3m milestone, c) initiation of Phase 1 trial with DEP cabazitaxel and d) launch of VivaGel BV by Aspen in Australia.

Valuation lifted to $1.86, Retain Buy (speculative)

Revisions to our model have resulted in a large decrease in our NPAT forecasts for FY18 and FY19, offset by a large increase in our NPAT forecast for FY20, primarily driven by revised timelines for upfront and milestones from VivaGel BV and DEP docetaxel deals, launch of DEP docetaxel (FY23 vs. FY22) and inclusion of DEP cabazitaxel in our model. The short term NPAT adjustments and rolling forward of our DCF model has lifted our valuation to A$1.86/sh. In the coming months we intend to model royalties to SPL on net sales of its AZN partnered candidate, which would represent an upside to our valuation. Hence we retain Buy (spec).

Earnings Forecast

Year end 30th June	2016A	2017A	2018E	2019E	2020E
Revenue (A$m)	7.3	6.2	15.9	31.2	50.8
EBITDA (A$m)	-22.5	-15.5	-3.3	14.6	37.8
NPAT (reported) (A$m)	-22.7	8.2	-2.7	10.7	27.1
NPAT (adjusted) (A$m)	-22.7	-15.2	-2.7	10.7	27.1
EPS (reported) (cps)	-6.57	2.23	-0.73	2.85	7.20
EPS (adjusted) (cps)	-6.57	-4.13	-0.73	2.85	7.20
EPS (adjusted) growth (%)	N/A	N/A	N/A	NM	152.4%
PER (x)	N/A	N/A	N/A	55.0	21.8
EV/EBITDA (x)	-23.3	-33.8	-159.5	36.0	13.9
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 (%)	-45.9%	-25.0%	-4.5%	14.6%	26.4%

NOTE: REVENUE INCLUDES R&D TAX REBATE AND UPFRONTS & MILESTONES FROM DEALS. FY18/FY19 REVENUE ALSO INCLUDE POTENTIAL UPFRONT AND MILESTONES FROM VIVAGEL SYMPTOMATIC RELIEF, TREATMENT, PREVENTION OF R-BV DEALS, MILESTONES FROM AZN AND ROYALTIES. SOURCE: BELL POTTER SECURITIES ESTIMATES

Earnings and Valuation Changes

We have revisited our assumptions for Starpharma and made adjustments to our forecasts based on its quarterly update, which have impacted earnings and valuation.

Key changes to our modelling assumptions

- We have included DEP cabazitaxel in our model given the imminent start of a Phase 1/2 trial. The trial is expected to commence imminently at the Guy's and St Thomas Hospital and UCLH in London.
- We were earlier expecting a deal for VivaGel BV in 1HFY18. Licensing negotiations in multiple territories are ongoing and progressing well from what we understand, we now expect deals to be finalised for VivaGel BV in 2HFY18. Accordingly we have moved the timing for our forecast upfronts and milestones from the deals.
- We have moved launch of VivaGel coated Condom in Japan by SPL's Okamoto from 2HFY18 to 1HFY19. Although approval may come before the end of June'18, we now expect launch in the latter half of CY18.
- We expect results from Phase 2 DEP docetaxel trials by mid-CY19, hence now assume a deal will be inked in FY20 (vs. earlier forecast of 2HFY19). We have moved the timing for our forecast upfronts and milestones accordingly and also expect first sales from the product in FY23 (vs. earlier forecast of FY22).
- We had earlier expected the R&D tax incentive of $3.7m for 2017 to be received in 1HFY18 as seen historically. SPL now expects it to be received in 3QFY18 and hence we have adjusted our receivables balance accordingly. This has impacted 1HFY18 cash balance, offset by a higher balance in 2HFY18.
- 1HFY18 cash balance was also impacted by a refundable $3.2m NDA fee paid to the FDA on submission for the VivaGel BV products in November. In Jan'18 under the Small Business Waiver from the FDA, SPL has been refunded this fee. Our 1HFY18 receivables have increased due to inclusion of this.
- We assume that the US launch of VivaGel coated condom is in FY19 (vs. earlier 2HFY18 estimate), with some easier to access Ex-US markets likely getting priority ahead.
- We also now model our previously assumed US$160m in commercial milestones for the DEP docetaxel deal, albeit on a risk adjusted basis.
- We have also updated our model for the recent grant and lapse of performance rights and have shifted some of the ones we expected to vest in 1HFY18 to 2HFY18.
- We have rolled forward our DCF model.

We value SPL at $1.86/sh

Following revisions to our model, the net result is a large decrease in our NPAT forecasts for FY18 and FY19, offset by a large increase in our NPAT forecasts for FY20, primarily driven by revised timelines for upfront and milestones from VivaGel BV and DEP docetaxel deals, launch of DEP docetaxel (FY23 vs. FY22) and inclusion of DEP cabazitaxel in our model. The short term NPAT adjustments and rolling forward of our DCF model has lifted our valuation for SPL to A$1.86/sh (was A$1.78/sh).

In the coming months we intend to model potential royalties to SPL on net sales of its AZN partnered candidate AZD0466 from a first indication, likely in a form of blood cancer, which would represent an upside to our current valuation of SPL and hence **we retain our Buy (Speculative) recommendation.**

Table 1 - Key Changes to our FY18-20 Forecasts

	FY2018E			FY2019E			FY2020E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenues	25.5	15.9	-38%	50.5	31.2	-38%	24.5	50.8	107%
Interest Income	1.0	1.0	-5%	1.3	1.1	-14%	1.6	1.5	-7%
R&D	13.2	13.2	0%	10.5	10.5	0%	6.8	6.8	0%
G&A	6.0	6.0	0%	6.1	6.1	0%	6.2	6.2	0%
EBITDA	6.3	-3.3	-153%	33.9	14.6	-57%	11.5	37.8	228%
EBIT	5.9	-3.7	-162%	33.4	14.2	-58%	11.1	37.3	237%
NPAT (adjusted)	4.8	-2.7	-156%	24.3	10.7	-56%	8.8	27.1	207%
Adjusted Diluted EPS	1.3	-0.7	-156%	6.5	2.9	-56%	2.3	7.2	207%

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)	655.9
Add: Reported Cash including NDA fee refund and R&D tax rebate(AUDm)	56.8
Less: Debt (AUDm)	0.1
Equity Value (AUDm)	712.7
Total diluted shares (million)	382.4
Value per share (AUD)	**$1.86**
Current Share price (AUD)	$1.57
Expected Capital Growth	18%

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 Treatment (US)	NDA filed for US approval	2019 (US)	20.0%	$142	80.0%	$80	**$0.21**	11.3%
VivaGel BV Symptomatic Relief	First regulatory approval in AU and EU received	2018 (Ex-US)	15.0%	$21	80.0%	$18	**$0.05**	2.6%
VivaGel BV Prevention of Recurrence	NDA filed for US approval	2019	25.0%	$642	80.0%	$337	**$0.88**	47.3%
VivaGel Coated Condom - Okamoto	Regulatory certification received	2019 (Japan)	10.0%	$21	80.0%	$4	**$0.01**	0.6%
VivaGel Coated Condom - Humanwell Healthcare	Regulatory approval received for AU, NZ, Canada	2015 (AU), 2017 (Canada), 2019 (US)	10% (US), 4% (EX US)	$232	80.0%	$56	**$0.15**	7.9%
DEP Docetaxel (NSCLC, mCRPC)	Phase II	2023	15%, 20%	$1,248	30.0%	$133	**$0.35**	18.7%
DEP Cabazitaxel (Docetaxel refractory mCRPC)	Phase I to be initiated	2025	30.0%	$407	18.0%	$28	**$0.07**	4.0%
AZN DEP AZD0466 (lead)	Pre-clinical complete	2024	NA	NA	NA	$29	**$0.08**	4.0%
Diagnostics/Laboratory Reagents	On-market	NA	NA	NA	NA	$2	**$0.00**	0.3%
Other Pipeline/Non-allocated	NA	NA	NA	NA	NA	($33)	**-$0.09**	-4.6%
Cash (last reported)	NA	NA	NA	NA	NA	$57	**$0.15**	8.0%
Debt (last reported)	NA	NA	NA	NA	NA	-$0.1	**$0.00**	0.0%
Equity Value						**$712.7**	**$1.86**	**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 VIVAGEL BV TREATMENT 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 & ANZ)	Registration (pre-launch)	TBC	2018	25	1.5	NA	23.5	20.0%
VivaGel	BV Treatment (US)	Registration (pre-launch)	TBC	2018	57	1	9	47	25.0%
VivaGel	BV Prevention of Recurrence	Registration (pre-launch)	TBC	2018	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 (now Humanwell Healthcare)	2012	0	NA	NA	NA	12.0%
DEP Docetaxel	Solid tumuours	Phase II complete	TBC	2020	300	15	125	160	15.0%
DEP Cabazitaxel	Solid tumuours	Phase I complete	TBC	2020	150	8	67	75	12.0%
AZN DEP AZD0466 (lead)	Unknown (BPe speculation blood cancers)	Pre-clinical	AstraZeneca	2016	126	2	64	60	NA

NOTE: OUR DEP DOCETAXEL AND CABAZITAXEL DEAL ASSUMPTIONS ARE CONSERVATIVE REFLECTING ITS EARLY STAGE. IT COULD POTENTIALLY HAVE ADDITIONAL VALUE FOR EACH ADDITIONAL INDICATION THAT THE LICENSEE PURSUES. ROYALTIES ARE LIKELY TO BE TIERED FOR EACH DEAL. WE ASSUME FLAT RATE 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 undisclosed partnerships in drug delivery (partnership with 2 undisclosed companies on antibody-targeted conjugates).

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. We intend to model royalties and sales milestones for the lead drug in a first indication over the coming months, likely a form of blood cancer, which represents an upside to our estimates. Other follow on compounds moving into the clinic would be a potential upside to our estimates.

At this stage we assign no value to the new collaboration agreement signed with AstraZeneca in July 2016 on a new DEP program in AZN's existing portfolio (i.e. a marketed compound by AZN). 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. Should this agreement translate to a commercial licensing deal in future, it will be an 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 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 (estimated market 3bn condoms/year). Activities related to obtaining regulatory approval in China have commenced and we understand are progressing at a rapid rate. Approval in China would be a potential upside to our estimates.

At this stage, we do not value SPL's other internal candidates from drug-delivery including DEP irinotecan, or its 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 two disclosed indications for DEP docetaxel in the ongoing Phase 2 trial of prostate cancer and non-small cell lung cancer (NSCLC).* Further expansion of DEP docetaxel into additional indications could considerably increase the market opportunity for this asset and represents an upside to our current estimates.

Cabazitaxel (Jevtana) made by Sanofi Aventis is currently marketed for hormone-refractory metastatic prostate cancer in docetaxel-resistant patients in combination with steroid prednisone. At this stage we model DEP Cabazitaxel's opportunity for the approved prostate cancer indication. However, we note that the drug is in clinical development for various other cancer indications including breast, head and neck, bladder etc. Further expansion of DEP cabazitaxel into additional indications could considerably increase the market opportunity for this asset and represents an upside to our current estimates.

Forthcoming Milestones

In terms of news flow in FY18, we expect the following announcements to act as catalysts for a potential re-rating of the stock:

- 3QFY18 - Licensing deal for VivaGel for BV (all indications) with upfronts and milestones;

- 3QFY18 - Potential initiation of Phase I trial with DEP Cabazitaxel;
- 3QFY18 – Completion of NDA filing for VivaGel for Treament of Bacterial Vaginosis (BV) and prevention of recurrence of Bacterial Vaginosis (R-BV) to US FDA for approval in US market;
- 3QFY18 – Potential initiation of Phase I trial with first DEP AstraZeneca drug under partnership triggering a US$3m milestone payment to SPL;
- 3QFY18- Launch of VivaGel OTC (Over the counter) product for symptomatic relief of BV by Aspen in ANZ;

In addition, we expect that over the next 12 months SPL's collaboration with AstraZeneca on the new DEP program announced in July 2016, could advance to a commercial licensing deal. In the same time frame, we also expect an update on progress made with SPL's collaboration with 2 undisclosed companies on its targeted DEP platform.

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 and are progressing well. The process could take several months and at this stage it is difficult to estimate a timeline for approval and launch. We believe there is a possibility for the approval to be received sometime in CY18.

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 the pharmaceuticals sector. SPL's lead product is VivaGel which is being developed as an anti-microbial coating for condoms offering protection against Sexually Transmitted Infections, as well as a topical microbicide for treating and preventing the recurrence of the common vaginal infection in women, Bacterial Vaginosis (BV). SPL is also working on improved formulations of leading cancer drugs both internally and with external partners including AstraZeneca. Substantial shareholders Allan Gray, M&G and Fidelity, in combination hold ~31% stock.

INVESTMENT STRATEGY

We believe FY18 is already proving to be a transformational year for SPL with the momentum expected to continue based on significant progress expected across its DEP drug delivery business and approval and licensing of its late stage VivaGel BV product. In recent months SPL has released positive Top-line results from its Phase 1 DEP docetaxel trial and initiated Phase 2 trials for the drug. This was followed by the unveiling of AZN/SPL's promising oncology candidate AZD0466, the approval for VivaGel BV in Australia and the NDA submission for marketing approval in US for both indications for VivaGel BV. SPL's strong cash position of ~A$49.9m and sharpened focus on pharmaceuticals following sale of its agrochemical business underpins its future growth and we expect SPL to add value in the medium term through commercial revenue from the condom coating asset, the AstraZeneca drug delivery partnership, VivaGel for BV, as well as through progressing clinical trials for DEP docetaxel and other internal DEP candidates. We also are encouraged between the deepening ties between AstraZeneca and SPL.

KEY RISKS

We see the following key stock specific risks to our investment thesis on Starpharma:

- **Clinical risk:** SPL's clinical trials primarily the ongoing Phase 2 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 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/Humanwell Healthcare 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 30 January 2018

Recommendation	Buy, Speculative
Price	$1.57
Valuation	$1.86

Table 5 - Financial summary

Starpharma (SPL) — **Share price (A$)** **$1.570**
As at 29 January 2018 — **Market cap (A$m)** **581.7**

Profit and Loss

Y/e June 30 (A$m)	2016A	2017A	2018E	2019E	2020E
Revenue*	7.3	6.2	15.9	31.2	50.8
EBITDA	**-22.5**	**-15.5**	**-3.3**	**14.6**	**37.8**
Depreciation & Amortisation	-0.9	-0.3	-0.4	-0.4	-0.5
EBIT	**-23.5**	**-15.9**	**-3.7**	**14.2**	**37.3**
Net interest & Other Income/(Expense)	0.8	0.7	1.0	1.1	1.5
Pre-tax profit (loss)	-22.7	-15.2	-2.7	15.3	38.8
Tax	0.0	0.0	0.0	4.6	11.6
NPAT (adjusted)	-22.7	-15.2	-2.7	10.7	27.1
Less minority interests	0.0	0.0	0.0	0.0	0.0
Net profit (loss) to shareholders	**-22.7**	**-15.2**	**-2.7**	**10.7**	**27.1**
Reported net profit (loss) to shareholders	-22.7	8.2	-2.7	10.7	27.1

*** Including R&D tax rebate, milestones and royalties. FY18 revenue includes potential upfront from VivaGel BV deal (all indications) and milestone from AZN deals. FY19 revenue includes potential milestone from BV deal and royalties from VivaGel BV. FY20 revenue includes potential upfront from DEP docetaxel and cabazitaxel deals and milestone from BV and AZN deals and royalties.**

Cashflow

Y/e June 30 (A$m)	2016A	2017A	2018E	2019E	2020E
Reported NPAT	-22.7	8.2	-2.7	10.7	27.1
Non-cash items	2.3	-20.6	2.3	2.6	2.8
Working capital	2.7	-4.5	0.0	3.7	0.0
Other operating cash flow	-0.1	0.0	0.0	0.0	0.0
Operating cashflow	**-17.8**	**-17.0**	**-0.4**	**17.0**	**29.9**
Capex	-0.1	-0.6	-0.5	-0.5	-0.5
Investments	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.1	33.3	0.0	0.0	0.0
Investing cashflow	**0.0**	**32.7**	**-0.5**	**-0.5**	**-0.5**
Change in borrowings	0.0	0.0	0.0	0.0	0.0
Equity issued	32.6	0.0	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	**32.6**	**0.0**	**0.0**	**0.0**	**0.0**
Net change in cash	**14.8**	**15.7**	**-0.9**	**16.5**	**29.4**
Cash at end of period*	46.0	61.2	60.5	77.0	106.3
*** Includes effect of exchange rate fluctuations on cash balance**					
Free cash flow	**-17.9**	**-17.6**	**-0.9**	**16.5**	**29.4**

Balance sheet

Y/e June 30 (A$m)	2016A	2017A	2018E	2019E	2020E
Cash	46.0	61.2	60.5	77.0	106.3
Current receivables	4.1	4.2	4.0	0.5	0.7
Inventories	0.0	0.0	0.0	0.0	0.0
Other current assets	0.2	0.3	0.3	0.3	0.3
Current assets	**50.3**	**65.7**	**64.7**	**77.7**	**107.3**
PPE	0.7	0.9	1.0	1.1	1.1
Non-current receivables	0.0	0.0	0.0	0.0	0.0
Intangible assets	8.1	0.0	0.0	0.0	0.0
Other non-current assets	0.0	0.0	0.0	0.0	0.0
Non-current assets	**8.8**	**0.9**	**1.0**	**1.1**	**1.1**
Total assets	**59.0**	**66.6**	**65.8**	**78.8**	**108.5**
Payables	8.8	4.7	4.4	4.6	4.8
Debt	0.0	0.1	0.0	0.0	0.0
Provisions	0.8	0.9	0.9	0.9	0.9
Other liabilities	0.0	0.0	0.0	0.0	0.0
Total liabilities	**9.6**	**5.6**	**5.4**	**5.5**	**5.7**
Shareholders' equity	49.4	61.0	60.4	73.3	102.7
Minorities	0.0	0.0	0.0	0.0	0.0
Total shareholders funds	**49.4**	**61.0**	**60.4**	**73.3**	**102.7**
Total funds employed	**59.0**	**66.6**	**65.8**	**78.8**	**108.5**
W/A shares on issue	345.0	368.2	372.3	374.3	376.9

Valuation data

Y/e June 30	2016A	2017A	2018E	2019E	2020E
Net profit (A$m)	-22.7	-15.2	-2.7	10.7	27.1
EPS (c)	-6.6	-4.1	-0.7	2.9	7.2
EPS growth (%)	N/A	N/A	N/A	NM	152.4%
P/E ratio (x)	N/A	N/A	N/A	55.0	21.8
CFPS (c)	-5.2	-4.6	-0.1	4.5	7.9
Price/CF (x)	-30.4	-34.1	-1372.8	34.5	19.8
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	-23.3	-33.8	-159.5	36.0	13.9
EV/EBIT	-22.4	-33.1	-142.9	37.1	14.1

Share price now	$1.570
Valuation:	$1.86
Premium (discount) to price	18%
Recommendation:	Buy
Risk Rating	Speculative

Profitability ratios

Y/e June 30	2016A	2017A	2018E	2019E	2020E
EBITDA/revenue (%)	N/A	N/A	N/A	46.8%	74.4%
EBIT/revenue (%)	N/A	N/A	N/A	45.4%	73.5%
Return on assets (%)	-38.4%	-22.9%	-4.1%	13.5%	25.0%
Return on equity (%)	-45.9%	-25.0%	-4.5%	14.6%	26.4%
Return on funds empl'd (%)	-45.9%	-24.9%	-4.5%	14.6%	26.4%
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	2016A	2017A	2018E	2019E	2020E
Net cash (debt) (A$m)	46.0	61.1	60.4	76.9	106.3
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)	5.3	11.9	12.2	14.1	18.9

Interims

Y/e June 30 (A$m)	1H16A	2H16A	1H17A	2H17A	1H18E
Revenue*	5.3	2.1	2.0	4.3	2.0
EBITDA	-9.8	-12.7	-8.9	-6.6	-7.2
Depreciation & Amortisation	-0.5	-0.5	-0.5	0.1	-0.2
EBIT	-10.3	-13.2	-9.4	-6.5	-7.4
Net interest & Other Income (Expense)	0.3	0.6	0.3	0.3	0.5
Pre-tax profit	-10.0	-12.6	-9.0	-6.2	-6.9
Tax	0.0	0.0	0.0	0.0	0.0
NPAT (adjusted)	-10.0	-12.6	-9.0	-6.2	-6.9
Less minority interests	0.0	0.0	0.0	0.0	0.0
Net profit to shareholders	-10.0	-12.6	-9.0	-6.2	-6.9
*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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