

Zoetis' Detach evaluation underway and ANZ commercialisation update

Anatara Lifesciences has shipped its first batch of Detach to Zoetis, thus starting the clock on an evaluation period. Zoetis has a program of scientific studies planned to evaluate Detach as a non-antibiotic growth promoter in several species of food animal, including pigs. Separately, Anatara is prosecuting its own program of supplementary R&D to explore a range of product and technology extensions. We have adjusted our forecasts for a short R&D-related delay in Detach's Australian commercialisation. We have revised our 12-month price target to \$1.75 per share but maintain our SPECULATIVE BUY rating. Anatara is a well-funded exposure to the dual themes of increasing food demand and the prevention of antibiotic-resistant human pathogens.

Key points

Progress report. In addition to collaborating with Zoetis across a wide spectrum of development work, Anatara has maintained its own R&D activities seeking Detach's APVMA approval, has continued to refine its manufacturing capabilities preparing for global supply, is exploring independent commercialisation options for the Australian marketplace and has planned further R&D to characterise the "human use" aspects of their technology. Anatara is well funded following the receipt of Zoetis' first milestone payment under their exclusive Research Evaluation and License Option Agreement.

Forecasts. We have shifted our target Australian launch period to the second half of calendar 2017 and European marketing into 2H 2018 following Anatara's decision to conduct a further safety study before submitting for marketing approval. The delays do not have a material impact on the company's near or medium term financial position. We are forecasting a cash low point of approximately \$8m for the company in mid-FY17 and a maiden NPAT year in FY18.

Valuation. We value ANR stock at \$1.75 per share based on our risk-adjusted discounted cash flow framework. The model anticipates a successful evaluation and commercialisation outcome with Zoetis, but currently excludes territories outside Australia, the USA and Europe.

Risks and catalysts

Catalysts – a) technical progress on field trials; b) regulatory changes restricting or banning antibiotics from animal protein production; c) positive outcome from Zoetis product evaluation studies; d) APVMA submission and approval. **Risks** – a) technical and execution risks, principally in relation to field trials; b) negative outcome from Zoetis evaluation; c) pace of market adoption once launched; d) industry response risks.

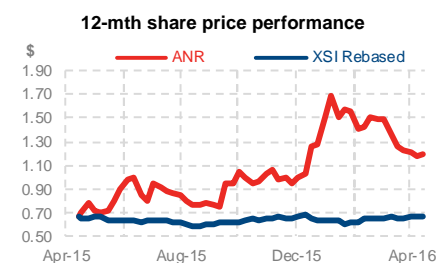
Year-end June (AUD)	FY14A	FY15A	FY16F	FY17F	FY18F
NPAT rep (\$m)	-0.9	-1.8	-1.3	-2.4	0.9
NPAT norm (\$m)	-0.9	-1.8	-1.3	-2.4	0.9
Consensus NPAT (\$m)			-2.0	-1.0	2.0
EPS norm (cps)	-189.4	-6.7	-2.4	-4.3	1.7
EPS growth (%)	98.5	96.5	64.1	-80.4	139.1
P/E norm (x)	-0.6	-17.1	-47.4	-26.3	67.3
EV/EBITDA (x)	-48.4	-21.6	-30.9	-16.7	49.5
FCF yield (%)	-1.5	5.0	17.9	-6.8	1.0
DPS (cps)	0.0	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0	0	0	0	0

Source: Company data, WHTM estimates, S&P Capital IQ

12-mth target price (AUD)	\$1.75
Share price @ 05-May-16 (AUD)	\$1.14
Forecast 12-mth capital return	53.8%
Forecast 12-mth dividend yield	0.0%
12-mth total shareholder return	53.8%

Market cap	\$42m
Enterprise value	\$42m
Shares on issue	37m
Sold short	
ASX 300 weight	n/a
Median turnover/day	\$0.0m

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	1-mth	6-mth	12-mth
Abs return (%)	-7.7	27.7	81.8
Rel return (%)	-11.9	23.9	80.5

KEY CHANGES	18-Jan	After	Var %
NPAT: FY16F	-2.0	-1.3	N/A
norm FY17F	-1.0	-2.4	>99%
(\$m) FY18F	2.0	0.9	-52.4%
EPS: FY16F	-3.7	-2.4	N/A
norm FY17F	-1.9	-4.3	>99%
(cps) FY18F	3.6	1.7	-52.4%
DPS: FY16F	0.0	0.0	0.0%
(cps) FY17F	0.0	0.0	0.0%
FY18F	0.0	0.0	0.0%
Price target:	1.82	1.75	-3.6%
Rating:	BUY	BUY	



PRICE TARGET

	Valuation	PT (\$/shr)
Discount rate (%)	14	
PV FFCFs (\$m)	32	
PV Terminal (\$m)	20	
Net cash (\$m)	12.1	
Valuation (\$m)	64	

TOTAL (\$/share) **1.75**

INTERIMS (\$m)

Half-year (AUD)	Dec 14	Jun 15	Dec 15	Jun 16
	1HA	2HA	1HA	2HE
Sales revenue	0.0	0.0	0.2	1.0
EBITDA	-0.8	-1.2	-1.2	-0.2
EBIT	-0.8	-1.2	-1.2	-0.2
Net profit	-0.8	-1.0	-1.2	-0.1
Norm EPS	-3.1	-3.6	-3.0	-0.3
EBIT/sales (%)			-733.6	-16.5
Dividend (c)	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0

FINANCIAL STABILITY

Year-end June (AUD)	FY15A	FY16F	FY17F
Net debt	-1.5	-12.1	-9.2
Net debt/equity (%)	<0	<0	<0
Net debt/EV (%)	<0	<0	<0
Current ratio (x)	38.3	29.5	37.6
Interest cover (x)	13.7	54.3	22.4
Adj cash int cover (x)	<0	<0	26.5
Debt/cash flow (x)	0.0	0.0	0.0
Net debt (cash)/share (\$)	<0	<0	<0
NTA/share (\$)	0.2	0.2	0.2
Book value/share (\$)	0.2	0.2	0.2
Payout ratio (%)	0	0	0
Adj payout ratio (%)	0	0	0

EPS RECONCILIATION (\$m)

	FY15A		FY16F	
	Rep	Norm	Rep	Norm
Sales revenue	0	0	1	1
EBIT	-1.9	-1.9	-1.4	-1.4
Net profit	-1.8	-1.8	-1.3	-1.3
Notional earn	0.0	0.0	0.0	0.0
Pref/conv div	0.0	0.0	0.0	0.0
Profit for EPS	-1.8	-1.8	-1.3	-1.3
Diluted shrs (m)	27	27	47	55
Diluted EPS (c)	-6.7	-6.7	-2.8	-2.4

RETURNS

	FY15A	FY16F	FY17F	FY18F
ROE (%)	-57	-15	-21	9
ROIC (%)	-72	-41	-215	45
Incremental ROE	-32	8	-44	-456
Incremental ROIC	-38	101	55	481

KEY ASSUMPTIONS

Year-end June (AUD)	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Revenue growth (%)			-48.9	670.5	110.7	99.8
EBIT growth (%)	124.1	-30.2	85.3	-133.7	402.2	198.8
NPAT growth (%)	108.1	-26.1	80.4	-139.1	365.1	195.5
EPS growth (%)	-96.5	-64.1	80.4	-139.1	365.1	195.5
EBIT/sales (%)		-116.3	-421.7	18.5	44.0	65.8
Tax rate (%)	0.0	0.0	0.0	0.0	0.0	0.0
ROA (%)	-34.4	-10.3	-13.9	4.1	16.7	38.8
ROE (%)	-32.8	-10.5	-15.0	5.2	19.8	45.2

PROFIT AND LOSS (\$m)

Year-end June (AUD)	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Sales revenue	0.0	1.2	0.6	4.6	9.6	19.3
EBITDA	-1.9	-1.4	-2.5	0.8	4.2	12.7
Deprn & amort	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	-1.9	-1.4	-2.5	0.8	4.2	12.7
Net interest expense	-0.1	0.0	-0.1	-0.1	-0.1	-0.2
Tax	0.0	0.0	0.0	0.0	0.0	0.0
Minorities/pref divs	0.0	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0	0.0
Net profit (pre-sig items)	-1.8	-1.3	-2.4	0.9	4.3	12.8
Abns/exts/signif	0.0	0.0	0.0	0.0	0.0	0.0
Reported net profit	-1.8	-1.3	-2.4	0.9	4.3	12.8

CASH FLOW (\$m)

Year-end June (AUD)	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
EBITDA	-1.9	-1.4	-2.5	0.8	4.2	12.7
Interest & tax	0.0	0.0	0.1	0.1	0.1	0.2
Working cap/other	0.0	8.8	-0.5	-0.5	-0.3	-0.5
Operating cash flow	-1.9	7.5	-2.9	0.4	4.0	12.4
Maintenance capex	4.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	2.1	7.5	-2.9	0.4	4.0	12.4
Dividends paid	0.0	0.0	0.0	0.0	0.0	0.0
Growth capex	0.0	0.0	0.0	0.0	0.0	0.0
Invest/disposals	-4.0	0.0	0.0	0.0	0.0	0.0
Other inv flows	-4.6	-5.9	0.0	0.0	0.0	0.0
Cash flow pre-financing	-6.6	1.6	-2.9	0.4	4.0	12.4
Funded by equity	7.0	9.0	0.0	0.0	0.0	0.0
Funded by debt	0.0	0.0	0.0	0.0	0.0	0.0
Funded by cash	-0.4	-10.6	2.9	-0.4	-4.0	-12.4

BALANCE SHEET SUMMARY (\$m)

Year-end June (AUD)	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Cash	1.5	12.1	9.2	9.7	13.7	26.1
Current receivables	0.1	0.5	1.0	1.3	1.3	1.3
Current inventories	0.0	0.5	0.3	1.4	3.0	5.2
Net PPE	0.0	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0	0.0
Intangibles/capitalised	0.0	0.0	0.0	0.0	0.0	0.0
Other	4.1	0.0	0.0	0.0	0.0	0.0
Total assets	5.6	13.1	10.6	12.4	18.0	32.6
Current payables	0.1	0.4	0.2	1.1	2.4	4.2
Total debt	0.0	0.0	0.0	0.0	0.0	0.0
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Total liabilities	0.1	0.4	0.3	1.1	2.4	4.2
Minorities/convertibles	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder equity	5.5	12.7	10.3	11.2	15.6	28.4
Total funds employed	5.5	12.7	10.3	11.2	15.6	28.4



Zoetis' Detach evaluation underway and commercialisation update

Changes to forecasts

We updated our model for Anantara's February's 4E and the March quarter 4C. Cash position was reported as \$14.3m, which includes ~\$2m in revenue from Detach commercialisation. The company's decision to take the Detach product into an additional target animal safety (TAS) study in piglets should strengthen the eventual marketing application but impose a delay to an Australian product approval and launch. The Australian Pesticides and Veterinary Medicines Authority's (APVMA) approval process also links into European and Asian markets.

We have shifted our target Australian launch period to the second half of calendar 2017 and European marketing into 2H 2018. The delays do not have a material impact on the company's near or medium term financial position. We are forecasting a cash low point of approximately \$8m for the company in mid-FY17 and a maiden NPAT year in FY18.

Table 1: Changes to FY17-18e forecasts

	FY17E			FY18E		
	Previous	Current	% chg	Previous	Current	% chg
Net revenue (\$m)	2.1	0.6	-72%	5.8	4.6	-21%
EBITDA (\$m)	(1.1)	(2.5)	nm	1.9	0.8	-56%
NPAT (\$m)	(1.0)	(2.4)	nm	2.0	0.9	-53%
Normalised EPS (cps)	(1.9)	(4.3)	nm	3.6	1.7	-53%

Source: WHTM Research

Operational update

Not standing still on R&D. Anantara's recent announcement relating to the new TAS study in piglets reflects the company's ongoing work with Detach, and is being pursued independently of the evaluation and trial work about to be conducted by Zoetis. The TAS study should be the final component of Anantara's dossier for APVMA's consideration. Anantara is planning further field trials and R&D to enhance the product's commercial appeal. Anantara is positioning its product for continued development independently or with alternative partners, in the event that Zoetis elects not to proceed.

Australian commercial options. Anantara is targeting Detach's APVMA approval and launch for 2017. As we have written in previous research, the Australian market is characterised by highly concentrated ownership, in that perhaps 10 groups speak for 75% or more of the industry. We understand that awareness of Detach and its development program has been advanced considerably over the past 18 months via Anantara's efforts and those of the Pork CRC. The customer base may be amenable to Anantara marketing directly via wholesalers.



Valuation summary

We value ANR stock at \$1.75 per share based on our risk-adjusted discounted cash flow framework. Key assumptions in our valuation include:

- **Earnings forecasts** – we have prepared Detach sales forecasts to FY30 based on product launches in Australia (2HFY17), Europe (FY18) and the USA (FY19). We have modelled an average selling price (ASP) of A\$0.60 per dose in Australia, with no price inflation (net of wholesaler margin). We understand that the previous version of the product sold for ~A\$0.80 per dose in the late Australian market in the late 1990s. In overseas markets, we have assumed that Anantara receives a transfer price of 50% of the end-market ASPs.
- **DCF inputs** – we have assigned a discount rate of 14%, which we see as appropriate given the high-risk nature of an investment in a development stage company facing both development and product introduction risks. We have assigned a terminal growth rate of 3.5% to reflect long-term demand for animal protein.
- **Market size** – we have modelled a terminal penetration of ~60% for the Australian market; 35% for USA and 15% for the EU. At this stage we have not included any revenues (or development costs) relating to the development of other applications of the product (poultry, veal, etc) although that is clearly contemplated under the Zoetis option. Importantly, the pork markets outside USA/EU/ANZ, other veterinary and human-use markets for Detach are not included in this analysis but may be developed by Anantara in the future.
- **Capital** – we have modelled no further capital raisings for Anantara on the assumption that Zoetis' evaluation is successful and Anantara goes on to negotiate commercial terms. In the short term, Anantara should benefit from the R&D Tax Incentive scheme, which was not changed in the recent Federal Budget. The Zoetis deal may comprise future milestone payments to Anantara, none of which are included in our forecasts.

Table 2: Valuation summary

DCF Parameters			
Discount rate	14%	Tax rate	30%
Terminal growth rate	3.5%	Forecast horizon	FY30
Risk discount	50%	Maiden tax-year	FY25
DCF Valuation			
PV of future cash flows (\$M)	31.8		
PV of terminal value (\$M)	20.4		
Value of operating assets (\$M)	52.2		
Net cash	12.1	Diluted share base	36.7
Equity value (\$M)	64.3	Value/share (\$)	1.75

Source: WHTM Research



Anatara Lifesciences (ANR)

BUSINESS DESCRIPTION

Anatara Lifesciences Limited (ANR) is an emerging animal health company with plans to enter the market with a product for preventing diarrhoea in piglets. If regulatory changes in the pork industry press towards the withdrawal of antibiotics from pig production, then the demand for alternative diarrhoea control and growth promotion strategies should increase. This Australian company is developing a product called Detach, which is a natural product extracted from pineapple stems. An earlier formulation of this product was launched and marketed by Ciba-Geigy (now Novartis) and used to prevent diarrhoea in pig herds back in the 1990s. Anatara plans to register a new formulation of Detach for the Australian market in mid-2016, before exploring international commercialisation opportunities.

INVESTMENT THESIS

Our research suggests that a non-antibiotic product for diarrhoea management is of great interest to the pork industry. We believe Anatara's Detach product can find support in the Australian market if field trials are successful and the product is approved by the APVMA. In 2016 Anatara signed an exclusive research evaluation and licence option agreement with multinational animal health company Zoetis. This agreement could segue to Zoetis taking a worldwide licence to develop and commercialise Detach. Anatara has retained rights to the ANZ markets.

REVENUE DRIVERS

- Market penetration
- Pricing
- Access to new markets and applications

MARGIN DRIVERS

- Modest R&D expense
- Virtual model based primarily on product licensing or partnering

KEY ISSUES/CATALYSTS

- Successful completion of field trials with favourable results on both clinical efficacy and production characteristics
- Regulatory approvals
- Regulatory changes discouraging or banning the use of antibiotics in animal production
- Corporate arrangements for US and European product
- Sales progress
- Non-dilutive funding inflows

RISK TO VIEW

- Lack of demand for product, once approved and launched
- Adverse regulatory settings (approvals, industry settings)
- Access to equity capital may be required

BALANCE SHEET

- Anatara reported \$14.3m cash at the end of March 2016

BOARD

- Mel Bridges (Non-Executive Chairman)
- Iain Ross (Non-Executive Director)
- Tracie Ramsdale (Non-Executive Director)
- Jay Hetzel (Non-Executive Director)
- Paul Grujic (Non-Executive Director)
- Stephen Denaro (Company Secretary)

MANAGEMENT

- Paul Schober (CEO)
- Tracey Mynott (CSO)
- Damian Wilson (Head Global Business Development)
- Alan Dowling (Group Accountant)
- Hayley van der Meer (Commercial Manager)

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