

Anatara Lifesciences (ANR)

Zoetis wants global animal distribution for Detach®

21 August 2017

 PAC Partners Research Team
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KEY POINTS

- Today Zoetis exercised option to negotiate a commercial agreement for global animal distribution of Detach®.
- We see this as strong endorsement of ANR's leadership in natural treatment of diarrhea for pigs and other animals.
- This natural treatment is a "back to the future" drug because of proven performance at commercial scale in Australia in 1990's with Ciba Geigy.
- We lower the risk for ANR attaining \$4.2m EBITDA by 2020 and 12 month PT rises 14% to \$1.55/share.
- Regulatory approval by APVMA and completed deal with Zoetis would see PAC move to DCF of \$2.60/share.

Moving towards control of destiny

Zoetis – validates strong global application for Detach®

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Emerging – transformational non-sticking gut wall.

ANR's Chief Scientific Officer (Dr Tracey Mynott) was part of Victorian University team that developed Detach® from "throw away" pineapple base 30 years ago.

After Detach® was proven to improve pig gut health and reduce diarrhea (called scour) Ciba-Geigy bought the rights and started selling to Australian pig farmers in 1990.

They lost momentum in early 1990's when Ciba-Geigy closed parts of animal health and sold division.

Focused – taking antibiotics out of animal feed chain and improve human gut treatment.

ANR aims for first commercial sales of Detach® drench for Australian suckers (young pigs) with gut health issues in early CY'18.

ANR is part of Australian pig R&D groups, and is well known to Ridley animal feed, APIAM regional vet & major customers.

INVESTMENT VIEW – Buy & PT \$1.55/share

We believe ANR will secure a strong commercial agreement with Zoetis and approval with APVMA because Detach® is an improved version of 1990's commercial version. The key issues are rate of adoption in pig supply chain, and application to other animals and humans. We assume fast take-up for high quality EU/China pork from 2019, and "over the counter" with modest health claims to humans from 2021.

RECOMMENDATION

Buy

Previous	Buy
Risk Rating	Very High
Current Share Price	\$1.25
12 Month Price Target	\$1.55 (from \$1.36)
Price Target Methodology	5% discounted FY'20 to FY'18 dollars and EV/EBITDA 20x
Total Return (Capital)	24%
DCF Valuation	\$2.60 (from \$2.05)
Market capitalisation	\$62m
Liquidity – Daily Value	\$0.03m

Financial Forecasts & Valuation Metrics

Y/e (\$m)	17F	18F	19 F	20F
Revenue	1.0	2.8	5.1	10.5
EBITDA	(3.4)	(1.2)	0.4	4.2
NPAT	(2.9)	(0.6)	0.5	3.2
EPS (cps)	(5.6)	(1.2)	1.0	6.2
DPS (c)	0.0	0.0	0.0	0.0
EV / EBITDA (x)			125.0x	10.7x
PER (x)			119.4x	20.1x
Dividend Yield	0.0%	0.0%	0.0%	0.0%
Gearing	(106)%	(105)%	(103)%	(107)%
Net cash	11.5	11.7	12.3	16.9

Source: PAC Partners estimates

ANR Milestones & Risks

4QCY17 – Detach® regulatory approval for commercial sales to pigs in Australia

APVMA approval should enable ANR to make sales into 2018 Australian Winter season (April to September).

1QCY18 – Zoetis should complete formal agreement for Detach® global distribution for animals

Today (21 August 2017) Zoetis elected to exercise option to negotiate for commercial agreement for global ex-Australia.

RISKS:

- Regulatory approval of Detach® & partnering decisions.
- Outside of Europe, and possibly China, there is little regulatory push for removal of antibiotics.
- Lumpy milestone payments to keep cash reserves above \$5m until Detach® sales are significant (from say FY19).
- Trade secret protection is strong. Patents are early stage.
- Key ANR people need to be retained.

Source: PAC Partners estimates

Financial Model

Anatara Life Sciences

Price \$ 1.250
Number of shares 49 m Market Cap \$62 m

PROFIT & LOSS (A\$m)

Y/end June	FY2015A	FY2016A	FY2017F	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F	FY2023F	FY2024F	FY2025F
Revenue	0.0	2.3	1.0	2.8	5.1	10.5	18.9	22.1	23.3	51.7	54.3
EBITDA	-1.9	-1.1	-3.4	-1.2	0.4	4.2	10.2	12.2	12.5	33.6	35.3
Depreciation & Amortisation	0.0	0.0	0.0	0.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
EBIT	-1.9	-1.1	-3.4	-1.2	0.2	4.0	10.0	12.0	12.3	33.4	35.1
Net Interest	0.1	0.4	0.5	0.6	0.6	0.6	0.7	1.1	1.7	2.3	3.1
Income tax expense	0.0	0.0	0.0	0.0	-0.2	-1.4	-3.2	-3.9	-4.2	-10.7	-11.5
NPAT underlying	-1.8	-0.7	-2.9	-0.6	0.5	3.2	7.5	9.1	9.8	24.9	26.7
Equity Accounting Profits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Less non-controlling Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT underlying - attributed to	-1.8	-0.7	-2.9	-0.6	0.5	3.2	7.5	9.1	9.8	24.9	26.7
Abnormal items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT Reported.	-1.8	-0.7	-2.9	-0.6	0.5	3.2	7.5	9.1	9.8	24.9	26.7

BALANCE SHEET (A\$m)

Y/end June	FY2015A	FY2016A	FY2017F	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F	FY2023F	FY2024F	FY2025F
Cash	5.6	13.8	11.5	11.7	12.3	16.9	27.5	40.4	50.1	74.6	101.3
PP&E	0.0	0.0	0.0	0.1	0.3	0.5	0.7	0.9	1.1	1.3	1.5
Debtors & Inventory	0.1	0.1	0.0	0.1	0.4	1.0	2.0	2.4	2.6	5.9	6.2
Intangibles	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	0.0	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8	0.9
Total Assets	5.6	13.9	11.7	12.1	13.2	18.7	30.6	44.3	54.5	82.6	109.9
Borrowings	-	-	-	-	-	-	-	-	-	-	-
Trade Creditors	0.1	0.4	0.3	0.4	0.5	1.0	1.9	2.2	2.3	5.2	5.4
Other Liabilities	0.0	0.0	0.5	0.5	0.8	1.9	3.8	4.5	4.7	11.2	12.0
Total Liabilities	0.1	0.4	0.8	1.0	1.3	3.0	5.7	6.7	7.1	16.4	17.4
NET ASSETS	5.5	13.5	10.9	11.1	11.9	15.7	24.9	37.6	47.4	66.2	92.4
OEI and Pref Shares	-	-	-	-	-	-	-	-	-	-	-
Shareholder Equity	5.5	13.5	10.9	11.1	11.9	15.7	24.9	37.6	47.4	66.2	92.4

Cash Flow (A\$m)

Y/end June	FY2015A	FY2016A	FY2017F	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F	FY2023F	FY2024F	FY2025F
Operating EBITDA	(1.9)	(1.1)	(3.4)	(1.2)	0.4	4.2	10.2	12.2	12.5	33.6	35.3
Interest & Tax Paid	0.1	0.3	1.3	0.6	0.6	0.6	0.7	1.1	(2.5)	(8.4)	(8.3)
Working Cap.	(0.1)	0.3	(0.1)	0.0	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.4)	(0.0)
Operating CF	(2.0)	(0.4)	(2.1)	(0.6)	0.8	4.7	10.8	13.1	9.9	24.7	26.9
Maintenance Capex	0.0	0.0	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Expansion Capex	(0.0)	(0.0)	(0.0)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cashflow (FCF)	(2.0)	(0.5)	(2.3)	(0.8)	0.6	4.5	10.6	12.9	9.7	24.5	26.7
Ord & Pref Dividends	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity raised	6.4	8.5	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Other	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)
Net Cashflow	4.5	8.2	(2.3)	0.2	0.6	4.5	10.6	12.9	9.7	24.5	26.7

Segment Analysis (A\$m)

Y/end June	FY2015A	FY2016A	FY2017F	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F	FY2023F	FY2024F	FY2025F
Revenue											
Pig	0.0	0.0	0.0	0.3	2.6	8.0	16.2	18.2	20.4	22.9	24.1
Human	0.0	0.0	0.0	0.0	0.0	0.0	0.1	1.4	2.8	28.7	30.2
Licensing revenue	0.0	2.3	1.0	2.5	2.5	2.5	2.5	2.5	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.0	2.3	1.0	2.8	5.1	10.5	18.9	22.1	23.3	51.7	54.3
Gross Margin											
Pig				50.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%
Human							25.0%	50.0%	75.0%	75.0%	75.0%
Licensing revenue			100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total			100.0%	95.4%	87.3%	81.0%	78.0%	76.3%	75.0%	75.0%	75.0%
Gross Profit											
Pig	0.0	0.0	0.0	0.1	2.0	6.0	12.2	13.7	15.3	17.2	18.1
Human	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.7	2.1	21.5	22.6
Licensing revenue	0.0	2.3	1.0	2.5	2.5	2.5	2.5	2.5	0.0	0.0	0.0
Total	0.0	2.3	1.0	2.6	4.5	8.5	14.7	16.9	17.4	38.7	40.7
SG&A	-1.9	-3.3	-4.4	-3.9	-4.1	-4.3	-4.5	-4.7	-4.9	-5.2	-5.4

Anatara Life Sciences

Date: 21-Aug-17

Model Updated: 21-Aug-17

KEY RATIOS

Y/End June	FY2015A	FY2016A	FY2017F	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F	FY2023F	FY2024F	FY2025F
EBITDA Margin (%)		-46.5%	-336.2%	-44.8%	7.8%	40.3%	54.3%	55.0%	53.8%	65.0%	65.0%
NPAT Margin (%)		-31.7%	-289.3%	-22.4%	10.6%	30.9%	39.9%	41.4%	42.2%	48.3%	49.3%
ROE (%) y/e			-26.7%	-5.6%	4.5%	20.6%	30.2%	24.3%	20.7%	37.7%	28.9%
ROI (%) y/e			685.2%	206.9%							
ROIC (%) Av.			-19.0%	-7.6%	1.1%	19.6%	33.8%	26.4%	20.0%	40.8%	30.8%
NTA per share (cps)		0.27	0.22	0.22	0.24	0.32	0.50	0.76	0.96	1.34	1.87
NTA per share (cps)		0.27	0.22	0.22	0.24	0.32	0.50	0.76	0.96	1.34	1.87
Eff Tax Rate (%)		0.0%	0.0%	0.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Interest Cover (x)		3.1	7.0	2.0	(0.3)	(6.7)	(13.8)	(10.8)	(7.3)	(14.7)	(11.2)
Net Gearing (%)		-102.6%	-105.9%	-105.1%	-103.1%	-107.3%	-110.2%	-107.4%	-105.6%	-112.8%	-109.6%

VALUATION PARAMETERS

Y/End June	FY2015A	FY2016A	FY2017F	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F	FY2023F	FY2024F	FY2025F
EPS Adj (cps)		-1.4	-5.6	-1.2	1.0	6.2	14.5	17.7	18.9	48.1	51.6
PE Adj (x)		-85.3	-21.4	-102.6	119.4	20.1	8.6	7.1	6.6	2.6	2.4
Enterprise Value (m)		47.9	50.3	50.1	49.5	44.9	34.3	21.4	11.7	-12.9	-39.6
EV / EBITDA (x)		-45.2	-15.0	-40.6	125.0	10.7	3.3	1.8	0.9	-0.4	-1.1
EV / EBIT (x)		-44.6	-14.9	-40.1	252.9	11.2	3.4	1.8	0.9	-0.4	-1.1
Price / NTA		4.6	5.7	5.6	5.2	3.9	2.5	1.6	1.3	0.9	0.7
DPS (cps)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Dividend Yield (%)		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Free Cash / Share (cps)		0.0	-0.05	-0.01	0.01	0.09	0.21	0.25	0.19	0.47	0.52
Price / FCF PS (x)		-143.3	-27.7	-84.1	101.3	14.3	6.1	5.0	6.7	2.6	2.4

DCF VALUATION & SENSITIVITY

PV of Cashflows 2017 to 2019	(4.7)	Risk Free Rate	4.0%
PV of Cashflows 2020 to 2025	30.9	Equity Risk Premium	8.5%
PV of Term Year Cashflow	94.9	Equity Beta	1.0
Cash from Options & Equity	0.0	Cost of Equity	12.7%
		After Tax WACC	12.7%
Less Net Debt	13.8	Terminal Growth	3.0%
PV of Equity	134.9		
Number of shares (Fully diluted - FY18)	51.8		
PV of Equity per share	\$ 2.60		

DIRECTORS

	Shares (m)	Shares (m)
Dr Mel Bridges	5.6	
Iain Ross	0.0	
Dr Jay Hetzel	0.0	
Dr Tracie Ramsdale	0.0	
Paul Grujic	0.0	
Total		5.6

TV WACC

	16.5%	14.5%	12.5%	10.5%
2.0%	\$ 1.55	\$ 1.93	\$ 2.49	\$ 3.37
2.5%	\$ 1.58	\$ 1.99	\$ 2.59	\$ 3.54
3.0%	\$ 1.62	\$ 2.05	\$ 2.69	\$ 3.73
3.5%	\$ 1.66	\$ 2.12	\$ 2.81	\$ 3.95
4.0%	\$ 1.71	\$ 2.19	\$ 2.94	\$ 4.20

LT Growth

MAJOR SHAREHOLDERS

	%	%
Dr Mel Bridges	11.3%	
Thorney	5.6%	
Top 20		35%

GROWTH PROFILE (YoY)

Y/End June	FY2015A	FY2016A	FY2017F	FY2018F	FY2019F	FY2020F	FY2021F	FY2022F	FY2023F	FY2024F	FY2025F
Sales (\$m)			-56%	176%	85%	105%	80%	17%	5%	122%	5%
EBITDA inc EAT (\$m)		-45%	217%	-63%	-132%	965%	143%	19%	3%	168%	5%
EBIT (\$m)		-44%	214%	-63%	-116%	1951%	150%	19%	3%	171%	5%
NPAT (\$m)		-60%	300%	-79%	-188%	495%	134%	21%	7%	154%	7%
EPS (cps)		-62%	300%	-78%	-186%	495%	134%	21%	7%	154%	7%
DPS (cps)		0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

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RECOMMENDATION CRITERIA

Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Buy	Hold	Sell
>20%	20% – 5%	<5%

Risk Rating

PAC Partners has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

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