PITT STREET RESEARCH

Anatara Lifesciences

Detach upside remains

Share Price: $0.255

ASX: ANR
Sector: Healthcare
17 July 2019

Anatara can still partner Detach

On 14 June 2019, Anatara announced that it would retain exclusive rights to Detach for livestock and horses, as Zoetis, Anatara's former partner, returned the exclusive worldwide license for Detach that it had taken in May 2018. Although the deal impacted Anatara's share price at the time and may continue to negatively affect it in the short run, we believe that the company has several other options that can compensate for this loss in the medium to long term. Anatara had engaged with over 10 top multinational animal health companies prior to signing an agreement with Zoetis. Thus, even though the termination of the exclusive commercialisation agreement with Zoetis may slow down the pace of Detach's commercialisation, we believe that Anatara can still find a good partner for the product.

There also remains considerable upside from a human health application

In our 14 March 2019 initiation report on Anatara we looked in some detail at Anatara's bromelain-based Gastrointestinal **R**e**P**rogramming (GaRP) product. GaRP is being developed for human GI health, particularly in irritable bowel syndrome (IBS) and inflammatory bowel disease (IBD), as a dietary supplement that could be used by itself or in conjunction with prescription medications. Due to the regulatory and commercial advantages associated with natural products and the complexity of management of these diseases, we believe GaRP has significant upside potential. Anatara's current cash is sufficient to fund GaRP in the human GI space through to the point of licensing out. Milestones and royalty payments will provide funding for future developments. We believe that even if investors are skeptical about Detach in the wake of the Zoetis hand-back, they can still be sanguine about the prospects of GaRP.

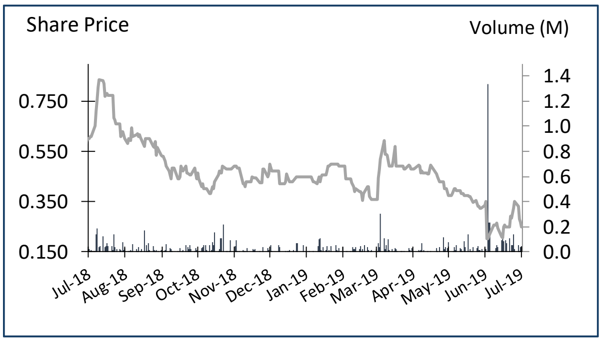
Valuation

In March 2019 we valued Anatara at $1.34 per share base case and $3.61 optimistic case using a probability-weighted DCF valuation approach. We have adjusted our valuation to take account of the Detach commercial risk. Our new valuation range is $1.09/$3.20. We see the potential to be re-rated by the market as GaRP progresses and as Detach gains regulatory approvals.

Market Cap. (A$ m)	12.6
# shares outstanding (m)	49.4
# share fully diluted	52.0
Market Cap Ful. Dil. (A$ m)	13.3
Free Float	100%
12 months high/low	0.835 / 0.2
1 / 3 / 12-month performance	-23% / -49% / -58%
Website	anataralifesciences.com

Source: Company, Pitt Street Research

Share price (A$) and avg. daily volume (k, r.h.s.)



Source: FactSet, Pitt Street Research

Valuation metrics	
DCF fair valuation range (A$)	1.09 / 3.20
WACC	15%
Assumed terminal growth rate	None

Source: Pitt Street Research

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The Anatara/Zoetis partnership may be over, but there is still upside for Anatara

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There are key milestones in animal health that the company can still achieve

Moreover, there are key milestones in animal health that the company can still achieve with significant upside potential. It is banking on Detach's regulatory approval in overseas markets, its global and/or regional licensing, launch of the APVMA-approved product in Australia, and its development for species other than piglets.

Considering the significant benefits associated with Anatara products and their ability to attain significant market penetration along with a relatively relaxed regulatory scenario, we believe that the company could soon ink a deal of a similar size and scale in the near future. In fact, our analysis indicates that many animal health and pharma companies would be keen to leverage the potential of Anatara's products. Based on our assessment, Anatara could consider collaborating with top pharma/animal health companies, such as Elanco and Merck, to commercialise Detach in scour and IBD/IBS (Figure 1). All these players are of a comparable size and scale to Zoetis, have a wide geographical footprint and offer products/disease focus similar to Anatara. Moreover, these companies have actively undertaken M&A during the past few years.

Figure 1: Prospective Companies for Exploring Partnership Opportunities

Potential Animal Health Partners	Potential Human Health Partners
Merck Animal Health	Roche
Boehringer Ingelheim Animal Health	Johnson & Johnson
Elanco	Takeda

Source: Pitt Street Research

Our valuation of Antara

We describe our valuation approach in our March 2019 initiation report. With this update we retain the basic assumptions of that time, however we now assume that

– Anatara can re-license Detach to a prospective veterinary medicine player in FY20 (optimistic case) or FY21 (base case);
– The commercial terms for the new deal will be similar to those that prevailed with Zoetis

This plus the recent change in the cash balance has the effect of lowering our valuation range from $1.34 per share base case and $3.61 optimistic case to $1.09 base case / $3.20 optimistic case.

Figure 2: Our new valuation of Anatara

	Base	Optim.
Detach Global (A$m)	46.5	135.5
GaRP (A$m)	7.8	28.5
Value of tax losses	3.2	3.2
Underlying R&D cost	-9.6	-9.6
Cash now (A$m)	5.4	5.4
Cash from options and cash to be raised (A$ı	3.4	3.4
Total value (A$m)	56.8	166.5
Total diluted shares (million)	52.0	52.0
Value per share	$1.09	$3.20
Valuation midpoint	$2.15	
Share price now (A$ per share)	$0.255	
Upside to midpoint	742.4%	

Source: Pitt Street Research

Re-rating Anatara

We see the potential for Anatara to re-rate even before a re-licensing of Detach

We see a number of factors helping to re-rate Anatara towards our valuation range:

– Registration of Detach in key markets;
– Positive results from efficacy and proof-of-concept studies of GaRP in IBD/IBS;
– Partnering or collaboration events related to GaRP.
– Potentially, a re-licensing of Detach.

Risks for Anatara

Risks specific to Anatara. We see four major risks for Anatara as a company and as a listed stock:

- **Clinical risk.** There is the risk that GaRP fails to demonstrate expected benefits in efficacy studies for IBD and IBS given the complexity of these diseases.
- **Partnering risk**. There is the risk that Anatara fails to secure a partner for GaRP another partner for Detach.
- **Funding risk**. There is the risk that Anatara's current cashflow exhausts faster than expected and that it does not get enough funding to survive itself through R&D efforts in human GI health.
- **Timing risk**. Commercialization efforts for Detach may be further delayed, impacting the royalty on product sales. Also, efficacy studies with GaRP may take longer than expected.

Risks related to pre-revenue Life Science companies in general. The stocks of biotechnology and medical device companies without revenue streams from product sales or ongoing service revenue should always be regarded as speculative in character. Since most biotechnology and medical device companies listed on the Australian Securities Exchange fit this description, the term 'speculative' can reasonably be applied to the entire sector. The fact that the intellectual property base of most biotechnology and medical device lies in science not generally regarded as accessible to the layman adds further to the riskiness with which the sector ought to be regarded.

Caveat emptor. Investors are advised to be cognizant of the abovementioned specific and general risks before buying any the stock of any biotechnology and medical device stock mentioned on this report, including Anatara.

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