

## Less poo in trial two

The results from Anatar's latest Detach field trial, conducted in weaner pigs, are positive. The product takes another step towards a broad marketing label for the Australian pork industry, possibly launching next year. Detach is a non-antibiotic product for preventing enteric diseases and promoting the growth of livestock. We are attracted to the commercial idea of offering producers a means of reducing their reliance on medically important antimicrobial drugs, whilst maintaining the economics of meat production. We have maintained our price target at \$1.18 per share. Upside to \$2.50 per share should key commercial catalysts be achieved this year and next. **SPECULATIVE BUY** rating.

### Key points

**Positive data from Anatar's second field trial of Detach** – the study was a blinded, randomised controlled trial conducted in 560 "weaner" piglets; 28 pens (14 piglets per pen) were randomised to receive Detach or a placebo at the point of weaning (21 days of age). The trial was designed to investigate the ability of Detach to reduce the incidence, severity and duration of diarrhoea (or "scour"), compared with a placebo. Scour was assessed by a scoring methodology that measured the incidence and severity of scour, in addition to the animals' clinical condition. The group treated with Detach had a 41% lower frequency of scour (p-value <0.02). Detach treatment was also associated with a 45% reduction in the severity of scour (p-value <0.02). These data appear broadly consistent with Anatar's previous work in weaners (nine previous trials in more than 3,000 animals demonstrate c.40% reductions on mortality and scour endpoints).

**Secondary endpoints** – disease conditions on the farm appeared to be relatively benign, with lower than usual rates of scour. Indeed, the conditions did not necessitate the use of antibiotics, so a reduction in drug usage could not be assessed as a planned secondary endpoint. The growth benefit (average daily weight gains) was just 1% and non-significant, statistically.

**Additional data for the APVMA dossier** – meeting another efficacy primary endpoint in a statistically significant manner adds strength to what already is a solid body of evidence for Anatar's Detach product, collected across commercially important porcine age groups. We hold APVMA approval and domestic launch expectations for Detach, in 2016.

### Risks and catalysts

**Catalysts** – a) technical progress on field trials; b) regulatory changes restricting or banning antibiotics from animal protein production; c) USA and EU commercialisation progress. **Risks** – a) technical and execution risks, principally in relation to field trials; b) pace of market adoption once launched; c) industry response risks.

Year-end June (AUD)	FY14A	FY15A	FY16F	FY17F	FY18F
NPAT rep (\$m)	-0.9	-1.8	-2.0	-1.0	2.0
NPAT norm (\$m)	-0.9	-1.8	-2.0	-1.0	2.0
Consensus NPAT (\$m)			-2.0	-1.0	2.0
EPS norm (cps)	-189.4	-6.7	-3.7	-1.9	3.6
EPS growth (%)	98.5	96.5	44.5	50.1	292.3
P/E norm (x)	-0.4	-12.3	-22.1	-44.3	23.0
EV/EBITDA (x)	-33.0	-14.7	-13.6	-26.1	14.9
FCF yield (%)	-2.1	6.9	-8.9	-5.4	4.7
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

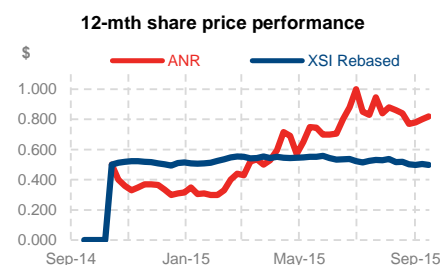
Source: Company data, WHTM estimates, S&P Capital IQ

12-mth target price (AUD)	\$1.18
Share price @ 16-Sep-15 (AUD)	\$0.82
Forecast 12-mth capital return	43.9%
Forecast 12-mth dividend yield	0.0%
<b>12-mth total shareholder return</b>	<b>43.9%</b>

Market cap	\$30m
Enterprise value	\$28m
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 (%)	-4.7	49.1	
Rel return (%)	-0.6	58.6	

KEY CHANGES	03-Sep	After	Var %
<b>NPAT:</b> FY16F	-2.0	-2.0	0.0%
<b>norm</b> FY17F	-1.0	-1.0	0.0%
(\$m) FY18F	2.0	2.0	0.0%
<b>EPS:</b> FY16F	-3.7	-3.7	0.0%
<b>norm</b> FY17F	-1.9	-1.9	0.0%
(cps) FY18F	3.6	3.6	0.0%
<b>DPS:</b> FY16F	0.0	0.0	0.0%
(cps) FY17F	0.0	0.0	0.0%
FY18F	0.0	0.0	0.0%
<b>Price target:</b>	1.18	1.18	0.0%
<b>Rating:</b>	<b>BUY</b>	<b>BUY</b>	



PRICE TARGET		
	Valuation	PT (\$/shr)
Discount rate (%)	17	
PV FFCFs (\$m)	27	
PV terminal (\$m)	9	
Net cash (\$m)	7.4	
Valuation (\$m)	43	

**TOTAL (\$/share) 1.18**

INTERIMS (\$m)				
Half-year (AUD)	Dec 14	Jun 15	Dec 15	Jun 16
	1HA	2HA	1HE	2HE
Sales revenue	0.0	0.0	0.1	0.5
EBITDA	-0.8	-1.2	-1.4	-0.7
EBIT	-0.8	-1.2	-1.4	-0.7
<b>Net profit</b>	<b>-0.8</b>	<b>-1.0</b>	<b>-1.4</b>	<b>-0.6</b>
<b>Norm EPS</b>	<b>-3.1</b>	<b>-3.6</b>	<b>-2.6</b>	<b>-1.1</b>
EBIT/sales (%)				-135.3
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	-7.4	-5.8
Net debt/equity (%)	<0	<0	<0
<b>Net debt/EV (%)</b>	<b>&lt;0</b>	<b>&lt;0</b>	<b>&lt;0</b>
Current ratio (x)	38.3	53.3	19.9
Interest cover (x)	13.7	43.0	16.2
<b>Adj cash int cover (x)</b>	<b>&lt;0</b>	<b>55.7</b>	<b>24.9</b>
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	-2.1	-2.1
<b>Net profit</b>	<b>-1.8</b>	<b>-1.8</b>	<b>-2.0</b>	<b>-2.0</b>
Notional earn	0.0	0.0	0.0	0.0
Pref/conv div	0.0	0.0	0.0	0.0
<b>Profit for EPS</b>	<b>-1.8</b>	<b>-1.8</b>	<b>-2.0</b>	<b>-2.0</b>
Diluted shrs (m)	27	27	55	55
<b>Diluted EPS (c)</b>	<b>-6.7</b>	<b>-6.7</b>	<b>-3.7</b>	<b>-3.7</b>

RETURNS				
	FY15A	FY16F	FY17F	FY18F
ROE (%)	-56.9	-23.5	-8.9	16.5
ROIC (%)	-72.1	-34.3	-15.6	24.5
Incremental ROE	-32.4	-4.6	37.6	633.4
Incremental ROIC	-37.7	-4.7	119.2	368.1

KEY ASSUMPTIONS								
Year-end June (AUD)	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Revenue growth (%)		-100.0			255.0	175.2	108.1	52.1
EBIT growth (%)	132.1	363.6	124.1	8.4	-48.1	-275.3	233.3	84.9
NPAT growth (%)	133.4	365.4	108.1	14.1	-50.1	-292.3	228.2	85.0
<b>EPS growth (%)</b>	<b>122.0</b>	<b>-98.5</b>	<b>-96.5</b>	<b>-44.5</b>	<b>-50.1</b>	<b>-292.3</b>	<b>228.2</b>	<b>85.0</b>
EBIT/sales (%)	-414.1			-353.2	-51.6	32.9	52.7	64.0
Tax rate (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>ROA (%)</b>	<b>-257.7</b>	<b>-81.9</b>	<b>-34.4</b>	<b>-17.2</b>	<b>-5.3</b>	<b>8.0</b>	<b>22.2</b>	<b>33.3</b>
<b>ROE (%)</b>	<b>66.1</b>	<b>-104.4</b>	<b>-32.8</b>	<b>-17.1</b>	<b>-5.6</b>	<b>9.4</b>	<b>25.5</b>	<b>38.1</b>

PROFIT AND LOSS (\$m)								
Year-end June (AUD)	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Sales revenue	0.0	0.0	0.0	0.6	2.1	5.8	12.1	18.4
EBITDA	-0.2	-0.9	-1.9	-2.1	-1.1	1.9	6.4	11.8
Deprn & amort	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>EBIT</b>	<b>-0.2</b>	<b>-0.9</b>	<b>-1.9</b>	<b>-2.1</b>	<b>-1.1</b>	<b>1.9</b>	<b>6.4</b>	<b>11.8</b>
Net interest expense	0.0	0.0	-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	0.0	0.0
Minorities/pref divs	0.0	0.0	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	0.0	0.0
<b>Net profit (pre-sig items)</b>	<b>-0.2</b>	<b>-0.9</b>	<b>-1.8</b>	<b>-2.0</b>	<b>-1.0</b>	<b>2.0</b>	<b>6.4</b>	<b>11.9</b>
Abns/exts/signif	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Reported net profit</b>	<b>-0.2</b>	<b>-0.9</b>	<b>-1.8</b>	<b>-2.0</b>	<b>-1.0</b>	<b>2.0</b>	<b>6.4</b>	<b>11.9</b>

CASH FLOW (\$m)								
Year-end June (AUD)	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
EBITDA	-0.2	-0.9	-1.9	-2.1	-1.1	1.9	6.4	11.8
Interest & tax	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2
Working cap/other	0.0	0.2	0.0	-0.6	-0.6	-0.6	-0.3	-0.3
<b>Operating cash flow</b>	<b>-0.2</b>	<b>-0.6</b>	<b>-1.9</b>	<b>-2.7</b>	<b>-1.6</b>	<b>1.4</b>	<b>6.1</b>	<b>11.6</b>
Maintenance capex	0.0	0.0	4.0	0.0	0.0	0.0	0.0	0.0
<b>Free cash flow</b>	<b>-0.2</b>	<b>-0.6</b>	<b>2.1</b>	<b>-2.7</b>	<b>-1.6</b>	<b>1.4</b>	<b>6.1</b>	<b>11.6</b>
Dividends paid	0.0	0.0	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	0.0	0.0
Invest/disposals	0.0	0.0	-4.0	0.0	0.0	0.0	0.0	0.0
Other inv flows	0.0	0.0	-4.6	0.0	0.0	0.0	0.0	0.0
<b>Cash flow pre-financing</b>	<b>-0.2</b>	<b>-0.6</b>	<b>-6.6</b>	<b>-2.7</b>	<b>-1.6</b>	<b>1.4</b>	<b>6.1</b>	<b>11.6</b>
Funded by equity	0.0	1.8	7.0	8.6	0.0	0.0	0.0	0.0
Funded by debt	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Funded by cash	0.0	-1.1	-0.4	-5.9	1.6	-1.4	-6.1	-11.6

BALANCE SHEET SUMMARY (\$m)								
Year-end June (AUD)	FY13A	FY14A	FY15A	FY16F	FY17F	FY18F	FY19F	FY20F
Cash	0.1	1.1	1.5	7.4	5.8	7.2	13.3	24.9
Current receivables	0.0	0.0	0.1	0.5	1.0	1.3	1.3	1.3
Current inventories	0.0	0.0	0.0	0.3	0.7	2.0	3.4	5.0
Net PPE	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	4.1	4.1	4.1	4.1	4.1
Intangibles/capitalised	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	4.1	0.0	0.0	0.0	0.0	0.0
<b>Total assets</b>	<b>0.1</b>	<b>1.1</b>	<b>5.6</b>	<b>12.2</b>	<b>11.5</b>	<b>14.5</b>	<b>22.1</b>	<b>35.3</b>
Current payables	0.0	0.2	0.1	0.2	0.6	1.6	2.8	4.0
Total debt	0.3	0.0	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	0.0	0.0
<b>Total liabilities</b>	<b>0.4</b>	<b>0.2</b>	<b>0.1</b>	<b>0.2</b>	<b>0.6</b>	<b>1.6</b>	<b>2.8</b>	<b>4.0</b>
Minorities/convertibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Shareholder equity</b>	<b>-0.3</b>	<b>0.8</b>	<b>5.5</b>	<b>12.0</b>	<b>10.9</b>	<b>12.9</b>	<b>19.4</b>	<b>31.3</b>
<b>Total funds employed</b>	<b>0.1</b>	<b>0.8</b>	<b>5.5</b>	<b>12.0</b>	<b>10.9</b>	<b>12.9</b>	<b>19.4</b>	<b>31.3</b>



## Anatara Lifesciences Limited (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 interest to the pork industry. We think the product will find support in the Australian market if Anatara's field trials are successful and the product is approved by the APVMA. We viewed the recent IPO pricing as fair, seeing potential upside in two dimensions. First, accelerated take-up in the Australian market during 2016-17 could be a leading indicator of robust demand elsewhere. Secondly, the capacity to attract non-dilutive funding would dramatically lift our valuation.

### 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 \$5.5m cash at the end of Jun-15. Following the recent capital raising we estimate pro forma cash at ~\$14m

### 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)

### CONTACT DETAILS

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### Recommendation structure and other definitions

Definitions at <http://www.wilsonhtm.com.au/Disclosures>

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Wilson HTM Corporate Finance Ltd acted as Joint or Lead Manager in the 3 July 2015 Capital Raising for Anatara Lifesciences Ltd securities for which it received fees or will receive fees for acting in this capacity. Wilson HTM Corporate Finance Ltd acted as Lead Manager in the 16 October 2014 placement of Anatara Lifesciences Ltd securities for which it received fees or will receive fees for acting in this capacity. Wilson HTM Ltd may have a conflict of interest which investors should consider before making an investment decision. Wilson HTM Ltd, Wilson HTM Corporate Finance Ltd and its related bodies corporate trades or may trade as principal in the securities that are subject of the research report.

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