

Zoetis puts its foot on Detach

Anatara Lifesciences has granted global animal health company Zoetis an exclusive right to conduct field trial evaluations of its non-antibiotic anti-infective and growth promotion agent, Detach. Zoetis has also taken an option to license Detach for worldwide commercialisation. The Zoetis relationship may also benefit shareholders through upfront and other cash payments, and by securing major market (US, EU) approvals for Detach in a non-dilutive manner. Anatara has retained its ANZ rights, where we expect an APVMA submission early this year. We have upgraded our valuation and price target to \$1.82 per share, to reflect this important validating event. We maintain a SPECULATIVE BUY rating.

Key points

Zoetis takes an option to license Detach worldwide – global animal health company Zoetis has signed an exclusive evaluation and licence option agreement with Anatara Lifesciences. Under this agreement, Anatara will supply Zoetis with Detach product for evaluation in a series of field trials and other studies. We understand that Zoetis contemplates field trials in several different settings involving a number of food production species. Anatara has granted Zoetis an option to license Detach for worldwide development and commercialisation (ex-ANZ).

WHTM view – the Zoetis deal is a significant validation of Detach's potential as a non-antibiotic anti-infective and/or growth promoter. The event also speaks positively of Anatara's intellectual property rights and field data quality. Zoetis' involvement with the program also potentially underwrites the development costs for Detach in the major markets (US, EU) via non-dilutive funding. No financial details have been disclosed, but we do expect to see evidence of an upfront payment in Anatara's next 4C cash flow report at the end of February.

Forecasts, valuation – the identification of a potential global partner for multiple species is a major de-risking event for Anatara shareholders. We have increased our target price to \$1.82 per share to reflect this. Our valuation methodology is a risk-adjusted discounted cash flow model, based only on Detach addressing the pork markets in USA, Europe and ANZ.

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)	-0.7	-19.4	-35.0	-70.3	36.5
EV/EBITDA (x)	-53.3	-23.8	-22.0	-42.3	24.1
FCF yield (%)	-1.3	4.4	-5.6	-3.4	3.0
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

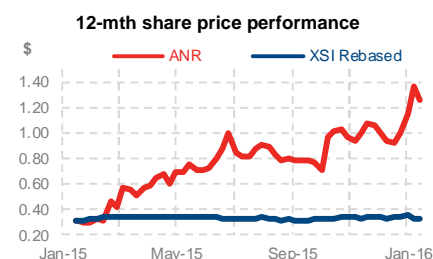
Source: Company data, WHTM estimates, S&P Capital IQ

12-mth target price (AUD)	\$1.82
Share price @ 18-Jan-16 (AUD)	\$1.30
Forecast 12-mth capital return	39.9%
Forecast 12-mth dividend yield	0.0%
12-mth total shareholder return	39.9%

Market cap	\$48m
Enterprise value	\$46m
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 (%)	35.1	54.3	303.2
Rel return (%)	39.9	55.1	298.4

KEY CHANGES	11-Dec	After	Var %
NPAT: FY16F	-2.0	-2.0	0.0%
norm FY17F	-1.0	-1.0	0.0%
(\$m) FY18F	2.0	2.0	0.0%
EPS: FY16F	-3.7	-3.7	0.0%
norm FY17F	-1.9	-1.9	0.0%
(cps) FY18F	3.6	3.6	0.0%
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:	1.18	1.82	54.1%
Rating:	BUY	BUY	



PRICE TARGET		
	Valuation	PT (\$/shr)
Discount rate (%)	14	
PV FFCFs (\$m)	41	
PV terminal (\$m)	18	
Net cash (\$m)	7.4	
Valuation (\$m)	66	

TOTAL (\$/share) 1.82

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
Net profit	-0.8	-1.0	-1.4	-0.6
Norm EPS	-3.1	-3.6	-2.6	-1.1
EBIT/sales (%)			-1,442.5	-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
Net debt/EV (%)	<0	<0	<0
Current ratio (x)	38.3	53.3	19.9
Interest cover (x)	13.7	43.0	16.2
Adj cash int cover (x)	<0	55.7	24.9
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
Net profit	-1.8	-1.8	-2.0	-2.0
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	-2.0	-2.0
Diluted shrs (m)	27	27	55	55
Diluted EPS (c)	-6.7	-6.7	-3.7	-3.7

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
EPS growth (%)	122.0	-98.5	-96.5	-44.5	-50.1	-292.3	228.2	85.0
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
ROA (%)	-257.7	-81.9	-34.4	-17.2	-5.3	8.0	22.2	33.3
ROE (%)	66.1	-104.4	-32.8	-17.1	-5.6	9.4	25.5	38.1

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
EBIT	-0.2	-0.9	-1.9	-2.1	-1.1	1.9	6.4	11.8
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
Net profit (pre-sig items)	-0.2	-0.9	-1.8	-2.0	-1.0	2.0	6.4	11.9
Abns/exts/signif	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported net profit	-0.2	-0.9	-1.8	-2.0	-1.0	2.0	6.4	11.9

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
Operating cash flow	-0.2	-0.6	-1.9	-2.7	-1.6	1.4	6.1	11.6
Maintenance capex	0.0	0.0	4.0	0.0	0.0	0.0	0.0	0.0
Free cash flow	-0.2	-0.6	2.1	-2.7	-1.6	1.4	6.1	11.6
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
Cash flow pre-financing	-0.2	-0.6	-6.6	-2.7	-1.6	1.4	6.1	11.6
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
Total assets	0.1	1.1	5.6	12.2	11.5	14.5	22.1	35.3
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
Total liabilities	0.4	0.2	0.1	0.2	0.6	1.6	2.8	4.0
Minorities/convertibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder equity	-0.3	0.8	5.5	12.0	10.9	12.9	19.4	31.3
Total funds employed	0.1	0.8	5.5	12.0	10.9	12.9	19.4	31.3



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)

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Recommendation structure and other definitions

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