

COMPANY Anatara Life Sciences (ANR) **MCAP** \$19m **\$0.39/share** Date: 26 February 2019

RECOMMENDATION Buy and PT \$1.40/share, Very High Risk

EVENT On track for GaRP supplement partner

KEY POINTS

- ANR's *in vitro* gut testing was very successful (85+% efficacy) with gut disease (IBD* & IBS**) treatment.
- ANR is now on track for selection of global partner in 2HCY'19 for GaRP, and formal 2HCY'20 agreement.
- ANR will continue IBD mouse studies (complete Jul'19) and commence IBS human studies in 2HCY'19.
- This 100 patient clinical trial is more than what is required for "over the counter" sales. ANR is doing trials to attract a wider group of potential partners, and enable specific disease treatment claims..
- The nearest peer OTC drug is Bayer's Iberogast for indigestion and discomfort associated with IBD. Only two clinical trials with ~150 patients treated in each and 50 to 150 placebo were done in 2004 and 2007. Bayer paid a multiple of the Euro60m/a sales in 2013 for rights to Iberogast.

*IBD = Irritable Bowel Disease (5m global sufferers). *IBS = Irritable Bowel Syndrome (840m global sufferers).

FY'21F METRICS PER 19.5x | EV/EBITDA 13.9x | Yield 0.0%

LINK TO RESEARCH NOTE RN_ANR_250219 – 6 pages and Recent Report RR_ANR_020119 – 6 Pages

INVESTMENT VIEW

ANR is set well for solid short term milestones, Buy

During CY'18 ANR signed global licence agreement with Zoetis (May'18), developed its human application drug GaRP and commercialisation path, appointed a globally significant advisory board and appointed proven 25 year commercial drug developer Steve Lydeamore CEO.

2019 is set up for a series of significant milestones including: 1QCY'19 - inVitro GaRP tests (Feb'19) and last year's APVMA approval for Australian commercial sales to piglets triggering a Zoetis milestone payment; mid CY'19 - Animal studies released for human application of Bromelain; 2HCY'19 – initiate discussions with preferred partner for human application.

UPCOMING EVENTS

21 March – 12:30pm - Meeting in PAC Office – Melbourne, Level 10, 330 Collins Street, Melbourne

22 March – 12:30pm Meeting in PAC Office – Sydney, MG Level, Kyle Office, 27-31 Macquarie Place, Sydney

COMPANY BACKGROUND

The replacement of antibiotics with natural therapies such as Zoetis/ANR's bromelain is a significant market with 70bn chickens, 1.5bn piglets and 1.4bn cows. 25% to 50% are farmed intensively and susceptible to diarrhoea.

We understand successful animal tests have been carried out across many livestock types, and Zoetis only enters a market if it can obtain a 40% market share.

If we assume market share of just 20% for only two markets (piglets and poultry), then ANR's royalty payments will be ~\$15m per annum.

There are yawning gaps in treatment of human gut disorders such as Inflammatory Bowel Disease (IBD – 5m sufferers), and Irritable Bowel Syndrome (IBS – 840m sufferers). Many of the current treatments are invasive and involve heavy use of antibiotics. Improving diet and exercise along with natural herbal treatments are preferred by

many sufferers. Just look at 450bn hits for “gut health” if you use Dr Google.

KEY DRIVERS

ANR has proven solutions for significant markets

1. **Intensively farmed piglet and chicken opportunities** are significant and consumers/regulators are pushing for a non-antibiotic solution like Zoetis/ANR's Detach®.
2. **Yawning gaps in treatment of human gut disorders** such as Inflammatory Bowel Disease (IBD – 5m sufferers), and Irritable Bowel Syndrome (IBS – 840m sufferers).
3. **Other human applications** will be targeted after OTC is granted for IBD/IBS. ANR will also develop additional products in future to augment pipeline.

ANR's human application “GaRP” – timetable to partnering (and OTC sales)

	2017 H1	2017 H2	2018 H1	2018 H2	2019 H1	2019 H2	2020 H1	2020 H2
Confirmed GRAS status for components with FDA	✓							
Established collaboration with University of Liverpool (UK)		✓						
Completed product development plan		✓						
Patent Application filed				✓				
Commercial feasibility			✓					
Manufacturing – sourced suppliers		✓						
Proof of concept				✓				
Animal study (IBD)						✓		
Human observational study (IBS)							✓	
Partnering discussions								✓

Source: ANR bringing science to supplements – December 2018

MILESTONES

1. 1QCY'19 - last year's APVMA approval for Australian commercial sales to piglets should trigger a Zoetis milestone payment;
2. Early to mid CY'19 – Animal studies released for human application of Bromelain (GaRP); and,
3. 2HCY'19 – initiate discussions with preferred partner for human application.

RISKS

- Small scale, and earnings may be volatile. *Response: \$5m net cash at 30 June 2019 gives ANR a buffer*
- Zoetis will not give out regular news updates. *Response: ANR will generate 'human application' news*

- Outside of Europe, and possibly China, there is little regulatory push for removal of antibiotics. *Response: McDonalds and KFC are now ahead of USFDA in bans*

DETAIL –CLINICAL TRIALS WILL ATTRACT PARTNERS.

ANR's *in vitro* gut testing was very successful (85+% efficacy) with gut disease (IBD* & IBS**) treatment. *IBD = Irritable Bowel Disease (5m global sufferers). *IBS = Irritable Bowel Syndrome (840m global sufferers).

While most were on holidays through December and January, the dedicated ANR team in Parkville kept the “gut like” organisms alive in test tubes for the Treated and Placebo trials.

ANR will continue IBD mouse studies (complete Jul'19) and commence IBS human studies in 2HCY'19.

These studies are more than what is required for “over the counter” sales. ANR is doing trials to attract a wider group of potential partners, and enable specific disease treatment claims to be made on packaging.

The nearest peer OTC drug is Bayer's Iberogast for indigestion and discomfort associated with IBD. You can see from below, that ANR is following a similar process and possibly will have stronger claims.

The Iberogast family founder only carried out two human clinical trials with ~150 patients treated in each and 50 to 150 placebo were done in 2004 and 2007. Only one rat trial in 2007 is referenced.

Bayer bought this family owned “mixture#” herbs for a multiple of its Euro60m sales in 2013.

ANR is now on track for selection of global partner in 2HCY'19 for GaRP, and formal 2HCY'20 agreement

ANR's GaRP (mixture of Bromelain and a few other evidence-based ingredients) may be superior than the treatment of IBS. ANR believes that GaRP has wide application for IBD and IBS and the InVitro trial results confirm its view.

We understand that at least four major pharmaceutical companies may have interest in GaRP.

Iberogast contents #

- Bitter candytuft
- Angelica
- Chamomile
- Caraway
- St. Mary's thistle
- Lemon balm
- Peppermint
- Greater celandine
- Liquorice

Ref: www.bayer.com

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Anatara Life Sciences

Price \$ 0.390
Number of shares 49 m
Market Cap \$19 m

PROFIT & LOSS (A\$m)

Y/End June	FY2015A	FY2016A	FY2017A	FY2018A	FY2019F	FY2020F	FY2021F	FY2022F	FY2023F	FY2024F	FY2025F
Revenue	0.0	2.3	0.3	0.0	1.7	3.4	6.0	11.5	24.7	35.9	42.0
EBITDA	-1.9	0.3	-2.0	-3.6	-2.9	-1.4	1.0	6.2	19.2	30.2	36.0
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	0.3	-2.0	-3.8	-3.1	-1.6	0.8	6.0	19.0	30.0	35.8
Net Interest	0.1	0.4	0.3	0.2	0.5	0.3	0.2	0.2	0.4	1.1	2.4
Income tax expense	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT underlying	-1.8	0.7	-1.7	-3.6	-2.6	-1.3	1.0	6.3	19.4	31.1	38.2
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 shareholders	-1.8	0.7	-1.7	-3.6	-2.6	-1.3	1.0	6.3	19.4	31.1	38.2
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	-1.7	-3.6	-2.6	-1.3	1.0	6.3	19.4	31.1	38.2

BALANCE SHEET (A\$m)

Y/End June	FY2015A	FY2016A	FY2017A	FY2018A	FY2019F	FY2020F	FY2021F	FY2022F	FY2023F	FY2024F	FY2025F
Cash	5.6	13.8	10.9	7.7	4.9	3.8	5.1	11.9	32.7	64.9	103.7
PP&E	0.0	0.0	0.0	0.0	0.2	0.4	0.6	0.8	1.0	1.2	1.4
Debtors & Inventory	0.1	0.1	1.3	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Intangibles	-	-	-	-	-	-	-	-	-	-	-
Other assets	-	0.0	0.1	0.1	0.2	0.3	0.4	0.5	0.6	0.7	0.8
Total Assets	5.6	13.9	12.3	9.8	7.3	6.5	8.1	15.2	36.2	68.7	107.9
Borrowings	-	-	-	-	-	-	-	-	-	-	-
Trade Creditors	0.1	0.4	0.2	0.4	0.2	0.3	0.6	1.1	2.5	3.6	4.2
Other Liabilities	0.0	0.0	0.1	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Total Liabilities	0.1	0.4	0.3	1.2	1.0	1.1	1.4	2.0	3.3	4.4	5.0
NET ASSETS	5.5	13.5	12.0	8.6	6.3	5.3	6.7	13.2	33.0	64.3	102.9
OEI and Pref Shares	-	-	-	-	-	-	-	-	-	-	-
Shareholder Equity	5.5	13.5	12.0	8.6	6.3	5.3	6.7	13.2	33.0	64.3	102.9

Cash Flow (\$Am)

Y/End June	FY2015A	FY2016A	FY2017A	FY2018A	FY2019F	FY2020F	FY2021F	FY2022F	FY2023F	FY2024F	FY2025F
Operating EBITDA	(1.9)	0.3	(2.0)	(3.6)	(2.9)	(1.4)	1.0	6.2	19.2	30.2	36.0
Interest & Tax Paid	0.1	0.4	1.6	0.2	0.5	0.3	0.2	0.2	0.4	1.1	2.4
Working Cap.	(0.1)	(1.0)	(2.5)	(1.1)	(0.3)	0.2	0.3	0.5	1.3	1.1	0.6
Operating CF	(2.0)	(0.3)	(2.9)	(4.5)	(2.7)	(0.9)	1.5	7.0	20.9	32.4	39.0
Maintenance Capex	0.0	0.0	(0.0)	(0.0)	(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)	(0.3)	(2.9)	(4.5)	(2.9)	(1.1)	1.3	6.8	20.7	32.2	38.8
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	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Other	0.1	0.0	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Cashflow	4.5	8.2	(2.9)	(3.1)	(2.9)	(1.1)	1.3	6.8	20.7	32.2	38.8

Segment Analysis (\$Am)

Y/End June	FY2015A	FY2016A	FY2017A	FY2018A	FY2019F	FY2020F	FY2021F	FY2022F	FY2023F	FY2024F	FY2025F
Revenue											
Pig, Poultry and Cows	0.0	0.0	0.0	0.0	0.0	0.9	1.9	4.1	7.6	11.6	14.1
Human	0.0	0.0	0.0	0.0	0.0	0.0	1.6	4.8	14.5	21.8	26.2
Licensing revenue	0.0	2.3	0.3	0.0	1.7	2.5	2.5	2.5	2.5	2.5	1.8
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	0.3	0.0	1.7	3.4	6.0	11.5	24.7	35.9	42.0
Gross Margin - all licence revenue											
Pig, Poultry and Cows					100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Human						100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Licensing revenue					100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total					100.0%						
Gross Profit											
Pig, Poultry and Cows	0.0	0.0	0.0	0.0	0.0	0.9	1.9	4.1	7.6	11.6	14.1
Human	0.0	0.0	0.0	0.0	0.0	0.0	1.6	4.8	14.5	21.8	26.2
Licensing revenue	0.0	2.3	0.3	0.0	1.7	2.5	2.5	2.5	2.5	2.5	1.8
Total	0.0	2.3	0.3	0.0	1.7	3.4	6.0	11.5	24.7	35.9	42.0
SG&A	-1.9	-2.0	-2.3	-3.6	-4.5	-4.7	-5.0	-5.2	-5.5	-5.8	-6.1

Anatara Life Sciences

Date: 22-Feb-19
Model Updated: 22-Feb-19

Y/End June	FY2015A	FY2016A	FY2017A	FY2018A	FY2019F	FY2020F	FY2021F	FY2022F	FY2023F	FY2024F	KEY RATIOS
EBITDA Margin (%)		13.7%	-617.4%	-60514.8%	-173.6%	-40.5%	17.0%	54.4%	77.8%	84.0%	85.6%
NPAT Margin (%)		28.5%	-529.5%	-59483.3%	-157.6%	-37.0%	17.3%	54.6%	78.7%	86.5%	90.9%
ROE (%) y/e		-14.2%	-41.6%	-41.3%	-23.4%	15.5%	47.3%	58.9%	48.3%	37.2%	
ROI (%) y/e		-488.5%	-376.4%								
ROIC (%) Av.		-15.7%	-35.7%	-38.0%	-24.4%	12.3%	57.2%	80.1%	60.8%	42.5%	
NTA per share (cps)	0.27	0.24	0.17	0.13	0.11	0.14	0.27	0.67	1.30	2.08	
NTA per share (cps)	0.27	0.24	0.17	0.13	0.11	0.14	0.27	0.67	1.30	2.08	
Eff Tax Rate (%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Interest Cover (x)	(0.8)	6.7	17.2	6.6	5.0	(3.8)	(27.1)	(44.6)	(26.9)	(14.7)	
Net Gearing (%)	-102.6%	-90.3%	-90.2%	-77.7%	-71.4%	-76.6%	-90.1%	-99.1%	-100.8%	-100.8%	

VALUATION PARAMETERS											
Y/end June	FY2015A	FY2016A	FY2017A	FY2018A	FY2019F	FY2020F	FY2021F	FY2022F	FY2023F	FY2024F	FY2025F
EPS Adj (cps)		1.3	-3.3	-7.1	-5.0	-2.4	2.0	12.1	37.5	60.0	73.8
PE Adj (x)	29.6	-11.3	-5.5	-7.8	-16.2	19.5	3.2	1.0	0.7	0.5	
Enterprise Value (m)		5.4	8.4	11.5	14.4	15.5	14.2	7.3	-13.4	-45.6	-84.4
EV / EBITDA (x)		17.4	-4.2	-3.2	-5.0	-11.3	13.9	1.2	-0.7	-1.5	-2.3
EV / EBIT (x)		18.3	-4.2	-3.0	-4.7	-9.9	17.3	1.2	-0.7	-1.5	-2.4
Price / NTA		1.4	1.6	2.2	3.1	3.6	2.9	1.5	0.6	0.3	0.2
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	-0.06	-0.09	-0.06	-0.02	0.03	0.13	0.40	0.62	0.75
Price / FCF PS (x)		-70.4	-6.9	-4.4	-7.1	-18.7	15.6	3.0	1.0	0.6	0.5

DCF VALUATION & SENSITIVITY

PV of Cashflows 2019 to 2021	(3.5)	Risk Free Rate	4.0%
PV of Cashflows 2021 to 2025	45.4	Equity Risk Premium	8.5%
PV of Term Year Cashflow	95.2	Equity Beta	1.2
Cash from Options & Equity	0.0	Cost of Equity	14.3%
		After Tax WACC	14.3%
Less Net Debt	7.7	Terminal Growth	3.0%
PV of Equity	144.9		
Number of shares (Fully diluted - FY18)	51.8		
PV of Equity per share	\$ 2.80		

DIRECTORS		ADVISORY BOARD	
	Shares (m)		Shares (m)
Sue MacLeman	0	Prof Peter Gibson	0
Dr Tracie Ramsdale	0	Dr Rebecca Burgell	0
Dr Jane Ryan	0	Dr Jakob Begun	0
Total	0.0	Prof Barry Campbell	0
		Prof Simon Kelly	0
Total	0.0		

Growth

	16.3%	14.3%	12.3%	10.3%
2.0%	\$ 2.14	\$ 2.63	\$ 3.32	\$ 4.38
2.5%	\$ 2.20	\$ 2.71	\$ 3.45	\$ 4.60
3.0%	\$ 2.25	\$ 2.80	\$ 3.59	\$ 4.86
3.5%	\$ 2.31	\$ 2.89	\$ 3.75	\$ 5.15
4.0%	\$ 2.38	\$ 2.99	\$ 3.93	\$ 5.48

GROWTH PROFILE (YoY)

Y/end June	FY2015A	FY2016A	FY2017A
Sales (\$m)			-86%
EBITDA inc EAT (\$m)		-116%	-735%
EBIT (\$m)		-115%	-772%

Top 20 35%

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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