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Recommendation
Buy (unchanged)
Price
\$0.765
Valuation
\$1.05 (unchanged)
Risk
Speculative

GICS Sector
Pharmaceuticals & Biotechnology

Expected Return

Capital growth	37.3%
Dividend yield	0.0%
Total expected return	37.3%

Company Data & Ratios

Enterprise value	\$244.4m
Market cap	\$281.9m
Issued capital	368.54m
Free float	100%
Avg. daily val. (52wk)	\$314,094
12 month price range	\$0.535 - \$0.79

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.73	0.64	0.73
Absolute (%)	1.38	14.84	0.68
Rel market (%)	-2.71	9.80	-14.44



SOURCE: IRESS

Starpharma (SPL)

Speculative

See Key risks on Page 2 & Biotechnology Risk Warning on Page 4
Speculative securities may not be suitable for Retail clients

FDA grants special status to VivaGel BV, commercial prospects enhanced

FDA grants QIDP and Fast Track designation to VivaGel BV

The US FDA has granted SPL Fast Track and Qualified Infectious Disease Product (QIDP) designation for VivaGel for both the indications of treatment and prevention of Bacterial Vaginosis (BV). The designations are designed to expedite the path to market for drugs targeting serious conditions and those with significant unmet need. QIDP designation constitutes a status similar to FDA's Orphan Drug designation but is applicable solely to antibacterial and antifungal products. In response to the growing antibiotic resistance, the QIDP designation has been designed to encourage anti-microbial drug development by providing an expedited approval path for qualifying drugs and financial incentives to developers. The QIDP designation makes VivaGel BV eligible for certain benefits which include **an additional five years of market exclusivity** over the standard exclusivity on marketing approval and **priority review**, which would shorten the FDA review time to 6 months (vs. standard 10 months).

Designation improves commercial prospects for VivaGel BV

Eligibility for priority review implies a faster path to market. Expanded market exclusivity increases the value of the VivaGel BV product as it will prevent generic competition for longer. Therefore we expect SPL's ongoing partnering negotiations to benefit from the timely grant of these designations.

VivaGel BV approaching key inflexion points

Results from the BV prevention of recurrence trials are expected to be released in 2QCY17. Following revised guidance from FDA on timing of assessment of primary endpoint for BV treatment trials, SPL intends to submit a marketing application for BV treatment to the FDA shortly based on Phase 3 trials it completed at the end of 2012.

Retain Buy and Valuation of \$1.05

No change to NPAT. Our EPS forecasts have reduced by 1% for FY18/19 to account for increased diluted shares on performance rights grant. We intend to re-instate the US opportunity of VivaGel as an acute treatment of BV in our model, which represents an upside to our current valuation of A\$1.05/sh for SPL. We retain Buy.

Earnings Forecast

Year end 30th June	2015A	2016A	2017E	2018E	2019E
Revenue (A\$m)	4.3	7.3	19.6	33.3	18.0
EBITDA (A\$m)	-18.6	-22.5	-4.5	18.0	2.5
NPAT (adjusted) (A\$m)	-19.0	-22.7	-4.6	12.6	1.9
EPS (adjusted) (cps)	-6.11	-6.57	-1.24	3.35	0.51
EPS growth (%)	N/A	N/A	N/A	NM	-84.8%
PER (x)	N/A	N/A	N/A	22.9	150.3
EV/EBITDA (x)	-13.1	-10.8	-53.7	13.6	98.7
Dividend (cps)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Franking (%)	N/A	N/A	N/A	N/A	N/A
ROE (%)	-50.5%	-45.9%	-9.9%	20.8%	3.0%

NOTE: REVENUE INCLUDES R&D TAX INCENTIVES. FY17/ FY18/FY19 REVENUE ALSO INCLUDE POTENTIAL UPFRONT AND MILESTONES FROM VIVAGEL SYMPTOMATIC RELIEF. PREVENTION OF R-BV AND DEP DOCETAXEL DEALS. MILESTONES FROM AZN AND ROYALTIES.
SOURCE: BELL POTTER SECURITIES ESTIMATES

Starpharma Holdings Ltd. (SPL)

COMPANY DESCRIPTION

Starpharma is a Melbourne-based platform company commercialising the science of nanoscale polymers called dendrimers. Its proprietary dendrimer technology is versatile with wide applicability across multiple sectors including pharmaceuticals, agrochemicals and industrial applications. SPL's lead product is VivaGel which is being developed as an anti-microbial coating for Ansell and Okamoto condoms offering protection against Sexually Transmitted Infections, as well as a topical microbicide to prevent the recurrence of the common vaginal infection in women, Bacterial Vaginosis (BV). SPL is also working on improved formulations of leading cancer drugs as well as agrochemicals both internally and with external partners. Substantial shareholders include Allan Gray, M&G and Fidelity. Their combined holdings represent ~31.2%.

INVESTMENT STRATEGY

SPL remains an attractive story with multiple shots on goal. We expect multiple catalysts to play out over the next 6 -12 months which could further de-risk the platform technology and demonstrate its commercial viability. We believe that CY17 will be a watershed year for SPL, with the release of Top-line data from the Phase I DEP docetaxel trial. Positive data from this trial will serve as a proof of concept for SPL's dendrimers to be effective drug delivery agents and substantially de-risk the company. SPL's strong cash position of A\$37.6m underpins its future growth and we expect to see the company add value in the medium term through commercial revenue from the condom coating asset, the AstraZeneca drug delivery partnership, as well as VivaGel for BV, as well as through progressing clinical trials for DEP docetaxel and VivaGel for prevention of R-BV. We continue to rate SPL as a Buy.

KEY RISKS

We see the following key stock specific risks to our investment thesis on Starpharma:

- **Clinical risk:** SPL's clinical trials primarily the Phase III R-BV trials and the Phase I DEP docetaxel trial may fail to demonstrate meaningful safety and efficacy. This may jeopardise the potential for SPL to license the products and/or pursue further clinical development.
- **Technology risk:** SPL is a platform company, with its entire pipeline based on its proprietary dendrimer technology. Any setback clinically or commercially is likely to put the viability of the company's technology at risk.
- **Regulatory risk:** Delays in receiving marketing approval or launch for VivaGel coated condom or BV product will negatively impact our revenue forecasts. This risk also extends to other pipeline products in terms of getting regulatory agreement to conduct clinical trials and marketing approval for launch in various markets.
- **Partnering risk:** The basic premise behind our investment thesis for SPL is that all its major products get licensed at attractive terms with the partner being responsible for all commercialisation and any further development as required. If SPL fails to secure partnerships at attractive terms, our forecasts will be negatively impacted. Furthermore, if any of SPL's existing collaborations should be terminated, it is likely to shake the markets confidence in SPL's technology and its commercial viability.
- **Commercial risk:** The VivaGel coated condom sales and revenue from partnerships with Okamoto/Ansell could fail to meet our expectations due to poor commercialization effort, delays in launch, unfavourable experience of consumers with the product, better performance of a competing product etc.
- **Funding risk:** Delays in partnering of products and/or increase in costs of trials beyond what we currently estimate may impact SPL's funding position.

Table 1 - Financial summary

Starpharma (SPL)						Share price (A\$)					\$0.765
As at 12 January 2017						Market cap (A\$m)					281.9
Profit and Loss											
Y/e June 30 (A\$m)	2015A	2016A	2017E	2018E	2019E	Y/e June 30	2015A	2016A	2017E	2018E	2019E
Revenue*	4.3	7.3	19.6	33.3	18.0	Net profit (A\$m)	-19.0	-22.7	-4.6	12.6	1.9
EBITDA	-18.6	-22.5	-4.5	18.0	2.5	EPS (c)	-6.1	-6.6	-1.2	3.3	0.5
Depreciation & Amortisation	-1.2	-0.9	-0.9	-1.0	-1.0	EPS growth (%)	N/A	N/A	N/A	NM	-84.8%
EBIT	-19.8	-23.5	-5.5	17.0	1.5	P/E ratio (x)	N/A	N/A	N/A	22.9	150.3
Net interest & Other Income/(Expense)	0.9	0.8	0.9	1.0	1.2	CFPS (c)	-4.4	-5.2	-1.1	5.0	1.2
Pre-tax profit (loss)	-19.0	-22.7	-4.6	18.1	2.7	Price/CF (x)	-17.4	-14.8	-72.0	15.4	62.3
Tax	0.0	0.0	0.0	5.4	0.8	DPS (c)	0.0	0.0	0.0	0.0	0.0
NPAT (adjusted)	-19.0	-22.7	-4.6	12.6	1.9	Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%
Less minority interests	0.0	0.0	0.0	0.0	0.0	Franking (%)	N/A	N/A	N/A	N/A	N/A
Net profit (loss) to shareholders	-19.0	-22.7	-4.6	12.6	1.9	EV/EBITDA	-13.1	-10.8	-53.7	13.6	98.7
Reported net profit (loss) to shareholders	-19.0	-22.7	-4.6	12.6	1.9	EV/EBIT	-12.3	-10.4	-44.5	14.4	162.5
* Including R&D tax incentive, milestones and royalties. FY17 Revenue number includes potential upfront from VivaGel BV symptomatic relief deal and from BV prevention of recurrence deal and milestone from AZN deal, FY18 revenue number includes potential milestone from BV prevention of recurrence and AZN deals. FY19 revenue number includes potential milestone from BV symptomatic relief deal and upfront from DEP docetaxel deal.											
Cashflow											
Y/e June 30 (A\$m)	2015A	2016A	2017E	2018E	2019E	Share price now	\$0.765				
Reported NPAT plus discontinued ops.	-19.0	-22.7	-4.6	12.6	1.9	Valuation:	\$1.05				
Non-cash items	2.0	2.3	2.5	2.6	2.6	Premium (discount) to price	37.3%				
Working capital	3.3	2.7	-1.9	3.6	0.1	Recommendation:	Buy				
Other operating cash flow	0.0	-0.1	0.0	0.0	0.0	Risk Rating	Speculative				
Operating cashflow	-13.6	-17.8	-3.9	18.8	4.6	Profitability ratios					
Capex	-0.7	-0.1	-0.1	-0.1	-0.1	Y/e June 30	2015A	2016A	2017E	2018E	2019E
Investments	0.0	0.0	0.0	0.0	0.0	EBITDA/revenue (%)	N/A	N/A	N/A	54.0%	13.8%
Other investing cash flow	0.0	0.1	0.0	0.0	0.0	EBIT/revenue (%)	N/A	N/A	N/A	51.1%	8.4%
Investing cashflow	-0.7	0.0	-0.1	-0.1	-0.1	Return on assets (%)	-42.7%	-38.4%	-8.5%	18.4%	2.7%
Change in borrowings	0.0	0.0	0.0	0.0	0.0	Return on equity (%)	-50.5%	-45.9%	-9.9%	20.8%	3.0%
Equity issued	20.5	32.6	0.0	0.0	0.0	Return on funds empl'd (%)	-50.4%	-45.9%	-9.9%	20.8%	3.0%
Dividends paid	0.0	0.0	0.0	0.0	0.0	Dividend cover (x)	N/A	N/A	N/A	N/A	N/A
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	Effective tax rate (%)	0.0%	0.0%	0.0%	30.0%	30.0%
Financing cashflow	20.5	32.6	0.0	0.0	0.0	Liquidity and leverage ratios					
Net change in cash	6.2	14.8	-4.1	18.6	4.5	Y/e June 30	2015A	2016A	2017E	2018E	2019E
Cash at end of period*	30.8	46.0	41.9	60.5	65.0	Net cash (debt) (A\$m)	30.8	46.0	41.9	60.5	65.0
* Includes effect of exchange rate fluctuations on cash balance											
Free cash flow	-14.3	-17.9	-4.1	18.6	4.5	Net debt/equity (%)	N/A	N/A	N/A	N/A	N/A
Balance sheet											
Y/e June 30 (A\$m)	2015A	2016A	2017E	2018E	2019E	Net interest cover (x)	N/A	N/A	N/A	NM	NM
Cash	30.8	46.0	41.9	60.5	65.0	Current ratio (x)	5.2	5.3	6.0	7.8	8.2
Current receivables	4.0	4.1	4.1	0.7	0.8	Interims					
Inventories	0.0	0.0	0.0	0.0	0.0	Y/e June 30 (A\$m)	2H15A	1H16A	2H16A	1H17E	2H17E
Other current assets	0.2	0.2	0.2	0.2	0.2	Revenue*	2.4	5.3	2.1	4.6	15.0
Current assets	35.1	50.3	46.2	61.4	66.0	EBITDA	-10.2	-9.8	-12.7	-9.0	4.4
PPE	0.9	0.7	0.5	0.3	0.1	Depreciation & Amortisation	-0.6	-0.5	-0.5	-0.7	-0.3
Non-current receivables	0.0	0.0	0.0	0.0	0.0	EBIT	-10.8	-10.3	-13.2	-9.6	4.1
Intangible assets	8.4	8.1	7.5	6.8	6.2	Net interest & Other Income (Expense)	0.4	0.3	0.6	0.3	0.7
Other non-current assets	0.0	0.0	0.0	0.0	0.0	Pre-tax profit	-10.4	-10.0	-12.6	-9.4	4.8
Non-current assets	9.3	8.8	8.0	7.2	6.3	Tax	0.0	0.0	0.0	0.0	0.0
Total assets	44.4	59.0	54.1	68.6	72.3	NPAT (adjusted)	-10.4	-10.0	-12.6	-9.4	4.8
Payables	5.9	8.8	6.9	7.1	7.3	Less minority interests	0.0	0.0	0.0	0.0	0.0
Debt	0.0	0.0	0.0	0.0	0.0	Net profit to shareholders	-10.4	-10.0	-12.6	-9.4	4.8
Provisions	0.8	0.8	0.8	0.8	0.8	*Includes R&D Tax incentive					
Other liabilities	0.1	0.0	0.0	0.0	0.0						
Total liabilities	6.8	9.6	7.7	7.9	8.1						
Shareholders' equity	37.6	49.4	46.4	60.7	64.2						
Minorities	0.0	0.0	0.0	0.0	0.0						
Total shareholders funds	37.6	49.4	46.4	60.7	64.2						
Total funds employed	44.4	59.0	54.1	68.6	72.3						
W/A shares on issue	310.1	345.0	369.3	377.5	376.8						

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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Disclosure: Bell Potter Securities acted as lead manager in the October 2011 and September 2014 placement and joint lead manager in the December 2015 placement and received fees for that service.

Biotechnology Risk Warning:

The stocks of biotechnology companies without strong revenue streams from product sales or ongoing service revenue should always be regarded as speculative in character. Since most biotechnology companies fit this description, the speculative designation also applies to the entire sector. The fact that the intellectual property base of a typical biotechnology company lies in science not generally regarded as accessible to the layman adds further to the riskiness with which biotechnology investments ought to be regarded. **Stocks with 'Speculative' designation are prone to high volatility in share price movements.** Clinical and regulatory risks are inherent in biotechnology stocks. Biotechnology developers usually seek US FDA approval for their technology which is a long and arduous three phase process to prove the safety, effectiveness and appropriate application or use of the developed drug and even after approval a drug can be the subject of an FDA investigation of subsequently discovered possible links between the drug and other diseases not previously diagnosed. Furthermore, the Australian exchange listed biotechnology sector is subject to influence by the global biotechnology sector, particularly that in the USA. Consequently, Australian exchange listed biotechnology stocks can experience sharp movements, both upwards and downwards, in both valuations and share prices, as a result of a re-rating of the sector both globally and in the USA, in particular. Investors are advised to be cognisant of these risks before buying such a stock including Starpharma. **For a list of risks specific to Starpharma please refer to Page 2 of this note.**

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