

COMPANY Anantara Life Sciences Ltd **MCAP** \$20m \$0.40/share

Date: 16 May 2019

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

EVENT World IBD Day – Sunday 19 May – ANR offers natural treatment

KEY POINTS

- Sunday 19 May marks five years since the first World IBD day. The size of the market is staggering with more than 1 person in 10 living with severe gut health conditions.
- Over the next six months ANR has a series of key milestones with in vitro, animal and human clinical trials. These will extend the 30 years of support for use of natural bromelain for human gut health treatment.
- ANR is likely to be able to claim the trifecta of: stopping pro-inflammatory bacteria adhering to the gut wall; reducing inflammation of the gut; and kick-starting the cells of the gut to repair the gut lining during and after disease. Doing all this with a natural product is a genuine game changer across human gut health. Each of the next six months will show steps to ANR's success.
- It is easy to forget that Zoetis, #1 animal health company, has already snapped up the global rights to bromelain for scour/diarrhea in farm animals with milestones and royalties to ANR. Zoetis' validation and Australian regulatory OK are significant. China's current African swine fever epidemic has also put animal health strategies on the front page of global press.

FY'21F METRICS PER 20.0x | EV/EBITDA 14.4x | Yield 0%

LINK TO RESEARCH NOTE RR_ANR_160519 – 6 pages

INVESTMENT VIEW

ANR has solid short-term milestones, Buy

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

2019 is ticking off a series of significant milestones including:

1QCY'19 – reporting of *in vitro* GaRP tests (Feb'19 – demonstrated efficacy of >85% in treating inflammation and reducing bacterial attachment);

During 2019 (in our view) there should be Zoetis' next stage of commercial launch as in Oct'18 the APVMA approved use for piglets;

Mid to late CY'19 – completion of GaRP IBD animal studies and commencement of human clinical studies; and,

2HCY'19 – initiate discussions with preferred partner for human gut-health product.

COMPANY BACKGROUND

The minimising of antibiotic use with first defence or complementary natural therapies such as Zoetis/ANR's bromelain is a significant market. 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 several 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 and other prescription medications. 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 (1,000bn six months later in May'19)

KEY DRIVERS

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

MILESTONES

1. 2019 - (In our view) there should be Zoetis' next stage of commercial launch because in Oct'18 the APVMA approved use of bromelain for piglets;
2. Mid-late 2019 – Results of the performance of the human gut-health product in mouse IBD models
3. 2HCY'19 – More *in vitro* trials – aimed to confirm the effectiveness of the human health product in promoting repair of the gut
4. 2HCY'19 - Commence IBS human studies, and,
5. 2HCY'19+ – Initiate discussions with preferred partner for human application...Completed by 2HCY'20F

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: China's African Swine Flu may prompt Zoetis and other animal health companies to provide more detail of preventative strategies for all pig and farmed animal diseases – including scour/diarrhea. 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 banning antibiotics

DETAILS – WORLD IBD DAY – SUNDAY 19 MAY

- Sunday 19 May marks five years since first World IBD day. It is good to see that severe gut health sufferers are finding a strong voice, and now we need to switch to defining the problem and finding solutions.
- The size of the severe gut health market is staggering: 840m Irritable Bowel Syndrome and 5m Inflammatory Bowel Disease. More than 1 person in 10. The “syndrome sufferers” do not have defined disease type. Not enough work has been done to define specific causes which mean there is a lack of efficacious therapies.
- Living with severe gut health conditions may compromise your mental health, lifestyle and profession. This leads to consideration of severe medicines and corrective procedures.
- *Victoria's Flory Institute of Neuroscience & Mental Health and the Bionics Institute have developed a gut electrode. This electrode aims to stimulate the vagus nerve between gut and brain which may eventually cure the gut inflammation associated with IBD. Ref: [disease-gut-electrode](#)*
- ANR's natural GaRP treatment aims to be complementary to any treatment, and hopefully delay or replace the need for drugs with side effects and/or drastic corrective surgery.
- Over the next six months ANR has a series of key milestones with in vitro, animal and human clinical trials. These will extend the 30 years of support for use of this proprietary product (containing bromelain and other natural substances in reducing the causes and symptoms of gut disease.
- The Feb'19 in vitro gut testing of the GaRP formulation (contains the bromelain which was the basis of the veterinary product but it also contains natural substances that add to the activity of bromelain) should be fresh in your minds. It showed 85+% efficacy, and only 40% is usually required for partnering with global partner. Later discussions revealed that ANR's testing on cells that line the gut wall showed preliminary indications that the ANR product may be able to program the cells to start the gut repair process. These claims could not be made until confirmatory studies are completed and we believe this will be mid- 2019. If ANR can claim the trifecta of: stopping pro-inflammatory bacteria adhering to gut wall; reducing inflammation and promoting healing of the gut, WHILE being a natural product then it has a genuine game changer across gut health.

SNAP SHOT – China’s African swine fever

- It is easy to forget that Zoetis, #1 animal health company, has already snapped up the global rights to bromelain for farm animals with milestones and royalties to ANR.
- *African swine fever in China has escalated since Dec’18 and is now estimated to lead to 33% of pigs (200m) being killed. These events underline the need for proactive animal health strategies such as natural therapies like Zoetis/ANR Bromelain. Ref: [african-swine-fever-hebei-pork](#)*

ANR’s milestones have been delivered...Augers well for Mid-2019 and 2HCY’19

	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)						F*		
Human observational study (IBS)						S*		
Partnering discussions								F*

 ANATARA LIFESCIENCES

* Finish; Start

Source: ANR presentation

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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 sha	-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%
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

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

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