

COMPANY Anantara Life Sciences Ltd **MCAP** \$17m \$0.35/share Date: 9 July 2019

RECOMMENDATION Speculative Buy (from Buy) and PT \$0.90/share, Very High Risk

EVENT Life after Zoetis

KEY POINTS

- ANR has responded positively to Zoetis handing back global right to use bromelain in livestock on 14 June.
- Careful balance sheet management ensured that ANR had ~\$5.4m of cash on 30 June 2019. This is almost two years at current expense rate of \$0.25m/month for both animal and human applications.
- ANR will use this runway to find global partners, and has re-initiated partner discussions with over 10 multi-national animal health companies.
- ANR nominated the next operational steps are likely to be: commercial launch of Detach® for pig suckers in Australian 2020 winter; and, initiation of human trials with GaRP from 2HCY'19F.
- Zoetis' validation was significant and its removal raises the unknown risk level with ANR, and shifts our Buy to a Speculative Buy. Our Valuation and Price Target are reduced 36% to \$1.80/share & \$0.90/share.
- We believe Zoetis pulled out because customers are not paying enough premium for antibiotic free meat. We know the best way to remove unknown risk is successful commercial sales and clinical trials.

FY'22F METRICS PER 5.2x | EV/EBITDA 3.0x | Yield 0%

LINK TO RESEARCH NOTE [RR_ANR_090719](#) – 7 pages

INVESTMENT VIEW

ANR has a solid technical platform and is in control of short-term, Speculative Buy (from Buy)

Zoetis' validation was significant. Its removal raises the unknown risk level with ANR, and shifts our Buy to a Speculative Buy. Our DCF valuation and 12 Month Price target are reduced 36% to \$1.80/share & \$0.90/share.

We believe the lack of premium for antibiotic free meat is the underlying hurdle for any global partner. This was the consistent message from key opinion leaders, intensive livestock farmers and animal feed companies. The incumbent delivery of antibiotics to pigs, chickens, livestock and aquaculture is already installed and cheap to run. The "preference" for antibiotic free meat from EU Government and food outlets (KFC, McDonalds) has not moved beyond "niche" status, and the price premium is small. Antibiotic free meat needs to cut through strongly like "free range" eggs, which are now 50% of Australian supermarket sales.

We believe the tide of public opinion is turning, and unfortunately a shock may be required to accelerate action.

COMPANY BACKGROUND

Back to the future bromelain

In the 1980's an Australian team based developed a gut treatment extract (bromelain) from base of pineapples and found an international partner to launch in 1990's for pig suckers. A market share of 40% was attained before the partner was caught up in the consolidation of human and animal pharma companies. The Australian Founders kept developing aspects of bromelain, and buying the rights to it and developed Intellectual Property inside the company Anantara Life Sciences. ANR listed on ASX in 2014 and drove the process to Australian regulatory approval for pig suckers in October 2018.

Animal Applications of bromelain

The minimising of antibiotic use with first defence or complementary natural therapies such as ANR's bromelain have significant target markets across: livestock (1.5bn piglets, 70bn chickens, and 1.4bn cows, where 25% to 50% are farmed intensively and susceptible to diarrhoea *Source: UNFAO*), companion animals (400m dog and cats. *Source: worldwide-pet-ownership*); aquaculture and horses.

Human Application of Bromelain

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 livestock opportunities** are significant, and consumers/regulators are pushing for a non-antibiotic solution like ANR’s Detach®.
- **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. August 2019 – FY’19 result.

- a. Demonstrate that ANR will prioritise near term commercial development of animal and human applications of bromelain.

2. HUMAN – FOCUS IS PARTNERING “OVER THE COUNTER” APPLICATION:

- a. 2HCY’19 – Results of the performance of the human gut-health product in mouse IBD models;
- b. 2HCY’19 – More *in vitro* trials – aimed to confirm the effectiveness of the human health product in promoting repair of the gut;
- c. 2HCY’19 - Initiate IBS human studies; and,
- d. 2HCY’19+ – Initiate discussions with preferred partner for human application. Complete 2HCY’20F

3. ANIMAL – FOCUS IS COMMERCIAL LAUNCH IN AUSTRALIA WITH:

- a. **(PAC’s assumption of) Winter of 2020** launch of Detach® (bromelain) for pig suckers in Australia and achieve 10% market share (0.58m of total 5.80m suckers). ANR has all regulatory approval for commercial launch in Australia.
- b. **2020** - ANR is confident of gaining regulatory approval to launch commercially in SE Asia on the back of Oct’2018 approval from Australia’s APVMA. There are 250x more sows than Australia (60.00m vs 0.23m). A significant portion of 0.58m FY’21F “Australian” doses may actually be used in SE Asia.
- c. **2020** - Partner discussions for other animal applications and regions are being done in parallel.

RISKS

- **Small scale, and earnings may be volatile.** *Response: \$5.4m net cash at 30 June 2019 gives ANR a buffer.*
- **Cash falling below \$3m in 4QFY’20F if there is no revenue in FY’20F.** ANR’s expense rate is \$0.25m/month. *Response: ANR has choice to: restrain human or animal applications; raise capital if the commercial milestones are strong enough to improve investor support; or, speed up partnering discussions for the cash injection.*
- **Outside of Europe, and possibly China, there is little regulatory push for removal of antibiotics from food.** *Response: McDonalds, KFC and other food or supermarket chains are likely to lead the charge. Many are ahead of USFDA in the banning of antibiotics.*

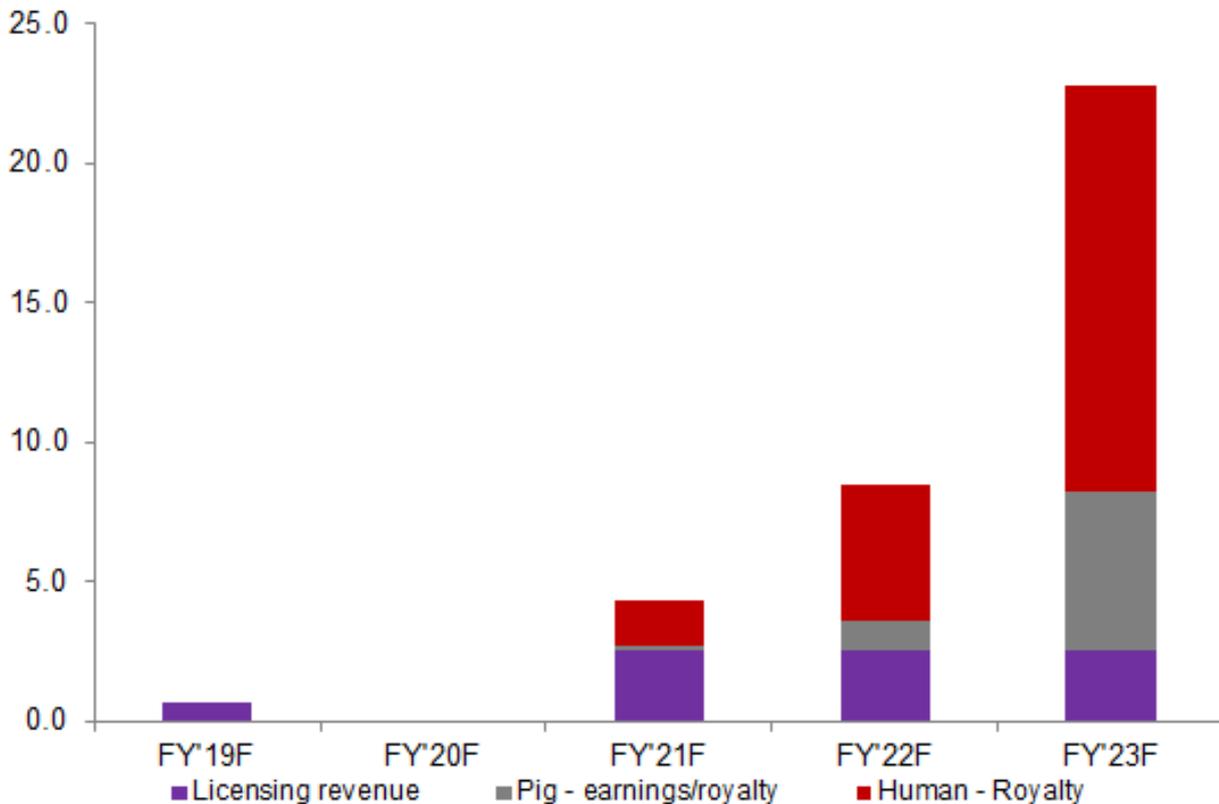
DETAILS – WHAT DOES ZOETIS’S ACTION MEAN FOR ANR

- **What happened?** Zoetis gave back the rights bromelain in May 2019 after two years of evaluation and almost one year of commercial launch preparation. We understood there was no penalty in the contract and there was no payment made to ANR or any extra data transfer from trials Zoetis carried out.
- **Why did Zoetis hand back bromelain?** We assume Zoetis was not able to see a quick adoption of bromelain due to price and regulatory barriers. You may expect after two years of evaluation, that Zoetis

would have cleared these barriers. However, each year Zoetis drug developments are reviewed to ensure quick launch to 40% market share and this may have been the decision tree:

- **Bromelain delivers on its animal gut health improvements.** During the three years there were no reports of any efficacy issues with Zoetis' development of bromelain.
- **Customer preference for non-antibiotic chicken was not able to be factored into the price** at this time in Australia, USA or Europe
 - We believe that it is likely that most of Zoetis' trials were carried out on poultry.
 - This large market of 70,000m chickens is attractive, particularly with KFC and McDonalds "preferring" meat without antibiotics.
 - Key opinion leaders in Australia have highlighted that any medicine cost barrier is just ~\$0.02/chicken.
 - However, customers are not yet willing to factor in higher cost for broad based antibiotic free chicken products.
- **Did Zoetis miss their targeted cost of goods/margin in time frame allowed?** Possible.
- **What comes next in animal health?** ANR is re-initiating partner discussions with more than 10 multi-national animal health companies. ANR knows the best information to accelerate this partnering is commercial sales. Therefore it has commenced discussions with a contract manufacturer for sale of Detach® into Australian market for suckers in Winter 2020
 - ANR acknowledges that it will take a significant amount of time and cost to prove Detach® for other animal species. ANR has allowed a third party to test a Detach® application for aquaculture. We can expect similar for companion animals and other animals. This third party approach minimises cost to ANR and shows "platform" technology attractions to a global partner.
 - If ANR received encouragement of key opinion leaders it might accelerate Detach® application for weaner pigs. The APVMA has approved Detach® for suckers and weaners with administration by a measured dosing gun or drenching gun.

Forecasts of ANR's revenue (\$m)



Source: PAC Partners estimates

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Anatara Life Sciences

Price \$ 0.350
Number of shares 49 m Market Cap \$17 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	0.7	0.0	4.3	8.5	22.7	45.8	52.5
EBITDA	-1.9	0.3	-2.0	-3.6	-2.3	-3.0	0.1	3.6	15.3	30.3	34.3
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	-2.5	-3.2	-0.1	3.4	15.1	30.1	34.1
Net Interest	0.1	0.4	0.3	0.2	0.5	0.3	0.2	0.1	0.2	0.7	1.9
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	-2.0	-2.8	0.1	3.5	15.4	30.8	36.0
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	-2.0	-2.8	0.1	3.5	15.4	30.8	36.0
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	-2.0	-2.8	0.1	3.5	15.4	30.8	36.0

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	5.4	2.5	3.0	6.7	22.7	53.1	88.9
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	2.0	2.1	2.9	5.7	6.6
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	7.7	5.1	6.0	10.2	27.3	60.7	97.7
Borrowings	-	-	-	-	-	-	-	-	-	-	-
Trade Creditors	0.1	0.4	0.2	0.4	0.1	0.0	0.4	0.8	2.3	4.6	5.3
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	0.9	0.8	1.2	1.7	3.1	5.4	6.1
NET ASSETS	5.5	13.5	12.0	8.6	6.9	4.3	4.7	8.5	24.2	55.3	91.7
OEI and Pref Shares	-	-	-	-	-	-	-	-	-	-	-
Shareholder Equity	5.5	13.5	12.0	8.6	6.9	4.3	4.7	8.5	24.2	55.3	91.7

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)	(2.3)	(3.0)	0.1	3.6	15.3	30.3	34.3
Interest & Tax Paid	0.1	0.4	1.6	0.2	0.5	0.3	0.2	0.1	0.2	0.7	1.9
Working Cap.	(0.1)	(1.0)	(2.5)	(1.1)	(0.4)	(0.1)	0.4	0.3	0.6	(0.5)	(0.2)
Operating CF	(2.0)	(0.3)	(2.9)	(4.5)	(2.2)	(2.7)	0.7	4.0	16.2	30.6	36.0
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)	(2.4)	(2.9)	0.5	3.8	16.0	30.4	35.8
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)	(2.4)	(2.9)	0.5	3.8	16.0	30.4	35.8

Segment Analysis (\$Am)

Y/End June	FY2015A	FY2016A	FY2017A	FY2018A	FY2019F	FY2020F	FY2021F	FY2022F	FY2023F	FY2024F	FY2025F
Revenue											
Pig	0.0	0.0	0.0	0.0	0.0	0.0	0.2	1.1	5.7	21.5	26.4
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	0.7	0.0	2.5	2.5	2.5	2.5	0.0
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	0.7	0.0	4.3	8.5	22.7	45.8	52.5
Gross Margin											
Pig					50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
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%	0.0%	97.8%	93.4%	87.4%	76.5%	74.9%
Gross Profit											
Pig	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.6	2.9	10.8	13.2
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	0.7	0.0	2.5	2.5	2.5	2.5	0.0
Total	0.0	2.3	0.3	0.0	0.7	0.0	4.2	7.9	19.9	35.1	39.3
SG&A	-1.9	-2.0	-2.3	-3.6	-3.0	-3.0	-4.1	-4.3	-4.5	-4.8	-5.0

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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