

Avexa (AVX)

All aboard; next stop, Phase 3

Avexa has announced positive results for its lead HIV compound. The trial has shown that the primary end point has been achieved. Additional funding is being secured, led by US investors. This is a major milestone for the company. Buy maintained.

Key forecasts

	FY05A	FY06A	FY07F	FY08F	FY09F
EBITDA (A\$m)	-8.16	-12.3	-25.8	-36.0	18.9▲
Reported net profit (A\$m)	-13.5	-17.8	-37.3	-31.4	21.7▲
Normalised net profit (A\$m) ¹	-13.5	-17.8	-37.3	-31.4	21.7▲
Normalised EPS (c) ¹	-9.82	-9.03	-9.19▲	-7.74▲	5.35▲
Normalised EPS growth (%)	n/a	-7.96	1.69	-15.8	n/a
Dividend per share (c)	0.00	0.00	0.00	0.00	0.00
Dividend yield (%)	0.00	0.00	0.00	0.00	0.00
Normalised PE (x)	n/m	n/m	n/m	n/m	13.3
EV/EBITDA (x)	n/m	n/m	n/m	n/m	12.2
Price/net oper. CF (x)	-14.0	-15.6	-13.7▼	-10.1▼	26.6▲
ROIC (%)	0.00	-238.9	814.7	366.0	-137.2

1. Pre-goodwill amortisation and exceptional items
Accounting Standard: IFRS
Source: Company data, ABN AMRO Morgans forecasts

year to Jun, fully diluted

Positive Phase IIb result has significantly de-risked AVX

In March, Avexa released, what in our view was an outstanding Phase IIb clinical trial result of its lead compound ATC to treat drug-resistant HIV infected patients. The primary end-point of the Phase IIb clinical trial was exceeded with patients recording an average 0.8 log₁₀ drop in the level of HIV in their blood after 21 days of treatment (versus a 0.03 log₁₀ drop in patients treated with the control). Once again, an excellent safety profile was reported, with no serious adverse events recorded. Additional Phase IIb clinical trial data will be released in September 2007 (24 week data) and February 2008 (48 week data).

Looking forward to Phase III clinical trial to start 2H07

AVX is now expected to progress to Phase III clinical trials in 2H07. We believe it will undertake two Phase III trials, involving a multi-country study of about 1,200 patients (600 each trial). These trials will run in parallel.

Current cash position topped up

Following the recent capital raising and rights issue AVX has, after costs, about A\$78m in cash. Avexa placed 29m shares to US institutional investors at A\$0.53, raising A\$15.4m and issued 122m shares at A\$0.53 in the ratio of two new shares for every five existing shares held, raising a further A\$64.5m. We have fully diluted out forecasts to reflect this.

Investment view - valuation increased to A\$1.42 - Buy maintained

Avexa has announced positive results for its lead HIV compound. This is a major milestone and in our view defining for the company's prospects. Our valuation and price target has increased to A\$1.42 (from A\$0.75), due to an increase in our probability of success to a particularly conservative 70% (from 30%). We note that to date, all HIV drugs passing Phase IIb trials have gone onto commercialisation.

Important disclosures regarding companies that are the subject of this report and an explanation of recommendations and volatility can be found at the end of this document.

Priced at close of business 7 May 2007. Use of ▲▼ indicates that the line item has changed by at least 5%.

Buy

Important: The above recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

High Volatility

Absolute performance

n/a

Short term (0-60 days)

Pharmaceuticals & Biotechnology

Australia

Price

A\$0.71

Target price

A\$1.42 (from A\$0.75)

Market capitalisation

A\$288.14m (US\$236.57m)

Avg (12mth) daily turnover

A\$0.64m (US\$0.51m)

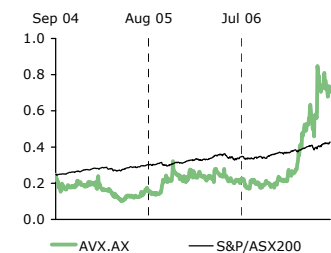
Reuters

AVX.AX

AVX70507

Price performance (1M) (3M) (12M)

	1M	3M	12M
Price (A\$)	0.73	0.50	0.24
Absolute %	-2.1	42.6	200.8
Rel market %	-5.3	31.9	147.6
Rel sector %	-1.8	38.9	177.6



Stock borrowing: Easy onshore,

Impossible offshore

Volatility (30-day): 116.02%

Volatility (6-month trend): ↑

52-week range: 0.99-0.17

S&P/ASX200: 6304.90

BBG AP Pharm & Biotech: 168.47

Source: ABN AMRO, Bloomberg

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Key catalyst achieved

Aveva has released, in our view, an outstanding Phase IIb clinical trial result of its lead compound ATC to treat drug-resistant HIV infected patients.

Positive result – 0.8 log₁₀ reduction in viral load

The primary end-point of the Phase IIb clinical trial has been exceeded with patients receiving either 600mg or 800mg of the drug recording an average 0.8 log₁₀ drop in the level of HIV in their blood after 21 days of treatment (versus a 0.03 log₁₀ drop in patients treated with the control). The company was aiming for a primary end point of 0.6 log₁₀ drop.

Once again, an excellent safety profile has been reported, with no serious adverse events recorded. Also no patients withdrew from the study as a result of adverse side effects. ATC continues to demonstrate its superior safety profile and it is well tolerated. We also note that no evidence of mutation in the virus, resulting in resistance to ATC, was reported over the course of the 21 day treatment. Details of the result are summarised below:

- An average reduction of greater than 0.8 log₁₀ (85%) drop in the level of HIV in the blood versus a 0.03 log₁₀ drop in patients treated with 3TC.
- Nine patients achieved a greater than 1.5 log₁₀ drop (97%) in viral load;
- Three patients demonstrated a 2.0 log₁₀ drop (99%) in viral load; and
- One patient demonstrated a 2.5 log₁₀ drop (99.7%) in viral load.

Details of clinical trial design

- The recently completed Phase IIb clinical trial was conducted in 47 treatment-experienced HIV-1 infected patients with resistance to lamivudine, also known as 3TC (ie, drug resistant HIV – M184V). Patients were randomised to receive either 600mg or 800mg of ATC or 3TC twice daily as the control. M184V is the name of the mutation in HIV that appears in patients after treatment with 3TC (lamivudine), or FTC (emtricitabine), that renders the HIV resistant to 3TC or FTC.
- The primary end-point of the double-blinded trial was a greater than 0.6 log₁₀ reduction of the amount of virus in the blood after 21 days of treatment. This was exceeded with both doses of ATC compared to 3TC.
- Following the completion of 21 days of treatment, patients continue to receive either ATC or lamivudine up to week 24, but can also change to other background HIV medicines. After 24 weeks all patients openly receive ATC unblinded to week 48. After 48 weeks, patients can choose to participate in an extension study. To date, 14 patients have successfully completed the 24-week blinded stage treatment and moved into the open label part of the trial where the patients are taking apricitabine as part of their daily treatment for HIV. This additional data will be released as it comes to hand.
- A further six patients have entered the extension study. This is positive, suggesting patient's viral loads continue to be under control. We assume that if there were any issues with the drug, patients would not move into open label.
- About one-third of patients were female and half of patients had the highest level of drug resistance. The trial was conducted in sites in Australia and Argentina, with the majority of patients recruited in Argentina.

The demonstration of superior activity in this study indicates that ATC will be an effective antiviral drug for the treatment of drug resistant patients, including even those most highly resistant

Where to now? AVX plans to conduct Phase III trial themselves

AVX is now expected to progress to Phase III clinical trials in 2H07. We expect AVX to undertake the Phase III trial themselves. We expect the two Phase III trials to involve at least 18 countries, involving about 1,200 patients (split over the two trials). The FDA and EMEA require two pivotal (Phase III) trials for filing and marketing approval.

Initial feedback from the regulators suggests that it may be possible to file for approval after 24 weeks of dosing, rather than the usual 48 weeks, which would accelerate time to approval. The trial is expected to be completed at the end of 1H09 and into FDA filing late 2009 or early 2010. We note that this was the case for Tibotec's Prezista which was approved for the treatment of resistant patients after 24 week dosing trials. To further support this argument we examine in greater detail the trial design utilised by Pfizer for its recently completed two pivotal Phase III trials for another of its HIV drugs called Maraviroc, called MOTIVATE 1 and MOTIVATE 2. Maraviroc will be the first in a new class of HIV medications called CCR5 antagonists.

The Phase III clinical trials for Maraviroc were conducted in 1,000 highly treatment experienced patients, across around 200 centres in the US, Europe, Canada and Australia. Patients were randomised 2:2:1 to three groups comparing optimised background therapy, with or without Maraviroc:

- Optimised background therapy (3-6 drugs based on treatment history and resistance testing) alone; or
- Optimised background therapy + 150mg of Maraviroc once daily; or
- Optimised background therapy + 150mg of Maraviroc twice daily.

Pfizer was able to submit its marketing application to the FDA, utilising 24-week data. It has also received priority review status from the FDA.

Prospects for Phase III trial are strong

According to a US Bureau of Economics 2003 paper, all 29 HIV drugs that entered Phase III between 1989 and 2002 made it to market. Since then, three additional drugs in separate classes to ATC have also been successful, with two more imminent, taking it to 34 from 34 successful in Phase III clinical trials.

We do not rule out corporate activity

Given the clinical trial results, we believe AVX has become an attractive acquisition target for an international pharmaceutical company looking to build its HIV pipeline. We believe the most likely acquirers include Merck, Pfizer, Boehringer Ingelheim or Tibotec Pharma (a J&J company).

We believe the potential to combine ATC with the other HIV drugs on the market, as part of a combined treatment regime, is high.

Increase in probability of success, increases valuation to A\$1.42

We have a DCF valuation of A\$1.42 per share (from A\$0.75). Our price target has been set at our valuation, which reflects where we believe the share price will trade when the Phase III clinical trial results are underway.

Table 2: DCF valuation assumptions

Assumptions	
WACC	15.16%
Beta	2.09
Equity risk premium	4.5%
Risk-free rate	5.75%
Long run growth rate	2.5%

Source: ABN AMRO Morgans estimates

Key assumptions

- **Market size estimates** – We base our market size estimate on the number of patients who no longer benefit from the 3TC treatment regimen. The market potential for this is significant. Currently, 65% of treatment experienced patients are in second- or third-line therapy as a result of resistance arising to first-line treatments. 48% of this 65% have the M184V mutation (associated with high level resistance). Therefore, we estimate 31% of patients receiving treatment are the target market equating to around 900,000 patients. We estimate AVX will secure 10% of the market following launch in FY10, growing to 25% by 2012. We believe ATC sales will be in line with those of other NRTI drugs and use an average sale price of US\$70 per patient per week.
- **Royalties and milestone payments** – We assume AVX will secure a marketing partner for the sale and distribution of ATC. We further assume a royalty rate on sales of 30% and a (conservative) upfront milestone payment of A\$50m. We assume Avexa pays Shire Pharmaceuticals a low double-digit royalty.
- **DCF valuation** – Our A\$1.41 DCF valuation is based on a WACC of 15.2% (see Table 2). We utilise a terminal growth rate of 2.5%, justified by the long patent protection and potential for additional sales following the development of combination pills or reformulation which have not been factored into forecasts. We have also applied no value to AVX's drug development pipeline, providing further upside. Shares on issue used to calculate our DCF valuation are 397m, fully diluted.
- **Cash position** – Following the recent capital raising and rights issue AVX has, after costs, around A\$78m in cash. Avexa placed 29m shares to US institutional investors at \$A0.53 raising A\$15.4m and issued 122m shares at A\$0.53 in the ratio of two new shares for every five existing shares held, raising a further A\$64.5m. We have fully diluted out forecasts to reflect this.
- **Probability of success** – We use a conservative 70% probability of success. As is our practice, we will increase this probability of success as AVX progresses through Phase III clinical trials for its lead compound. We note that all HIV drugs that entered Phase III to date, have progressed through the commercialisation pathway to market. Therefore we believe our probability of success is particularly conservative.

Sensitivity analysis

- Each 1% increase in our probability of success adds 3cps to our valuation.
- Each 1% increase in the royalty AVX receives from its future market partner adds 9cps to our valuation.
- Each 1% increase in the royalty AVX pays to Shire Pharmaceuticals subtracts 9cps from our valuation.

Key risks

Risks to our valuation and price target include: (1) Delays or lack of success in the clinical programmes are an inherent risk for all biotechnology companies, in both development and registration of new compounds; (2) AVX is responsible for marketing the product worldwide. A marketing partner is required; and (3) The capital requirements associated with R&D of Avexa's projects will remain significant.

Anticipated news flow

We have identified a number of near-term catalysts which, if achieved, we believe have the potential to drive the share price higher.

Table 3 : Upcoming milestones to watch

Estimated date	Milestone	Impact
1QCY07	Release of the first results from Phase IIb clinical trial of Apricitabine	Achieved
2QCY07	Publication of 21 day results at IAS conference (July)	Positive
4QCY07	Initiate sites for Phase III for ATC	Positive
2HCY07	Pediatrics trial for ATC	Positive

Source: ABN AMRO Morgans

Recap on lead program

Apricitabine – a new second-line treatment option for HIV

Apricitabine (ATC) is a nucleoside analogue, part of a class of drugs known as Nucleoside Reverse Transcriptase Inhibitors (NRTI). Importantly, ATC is under Investigational New Drug Status (in AVX's name) and has received fast-track status from the US FDA, and a similar review in Europe.

Manufacturing agreement signed

Avexa has signed a fee-for-service agreement with France-based Groupe Novasep to manufacture its lead compound apricitabine (ATC). The tailored manufacturing process is proprietary and protected under patent until 2025.

IP position

ATC is protected in key markets through composition of matter patents until 2013. We believe that market exclusivity will be granted in both the US and Europe, meaning a five-year extension. The manufacturing process is also proprietary and protected under patents that expire in 2025. Once approved we believe the company could extend patent protection with the development of new formulations and/or combination products.

Significant market opportunity

The intended market for ATC is patients who have shown resistance to therapy with 3TC or FTC. This would effectively position ATC as a second and third-line therapy for the ongoing treatment of HIV, for patients who are no longer benefiting from the 3TC and FTC treatment regimens. The market potential for this is significant. Currently, 65% of treatment experienced patients are in second- or third-line therapy as a result of resistance arising to first line treatments. 48% of this 65% have the M184V mutation (associated with high level resistance). Therefore, 31% of patients receiving treatment are the target market. This equates to about 900,000 patients. There is also a growing number (about 20%) of treatment-naïve patients who are also resistant to first-line options.

Competitive landscape

HIV affects around 40m people globally, including 1.5m-2m people in the US and Western Europe. In Western societies, current treatments have seen HIV shift from an acute illness to a chronic disorder, although it remains fatal. The market for HIV therapies is large with an estimated US\$8bn in sales in 2003. Patients typically develop resistance to current treatments when taken over a period of time.

Current treatments for HIV fall into four categories, as outlined in Table 4. The total number of treatments on the market to date is >25 and a number of drugs have been co-formulated. Highly Active Antiretroviral Therapy (HAART) is the recommended treatment option for HIV infection, which combines three or more anti-HIV medications in a daily regimen. This standard of care is appropriate for the three

main stages of treatment, first, second and third line treatment. The advance of combination pills has helped to reduce the number of pills taken by patients on a daily basis and therefore improves patient compliance.

Despite these improvements, drug resistance, as a result of mutation, remains the ultimate problem for HIV treatment. Currently, 65% of treatment experienced patients are in second or third line therapy as a result of resistance arising to first line treatments. There is also a growing number (10-30%) of treatment-naïve patients who are also resistant to first line options. Therefore, there is a market need for new anti-retrovirals to combat the development of resistance. We believe that AVX754 has a number of advantages that will make it an important addition to physicians' attack against HIV viral load.

Given that AVX is positioning itself as a second line therapy, there are few products currently on the market that it will compete directly with for market share. We expect that AVX will be able to filter off current sales for leading first line treatments; like Combivir (GSK) reported sales of US\$1061m in CY05 and Truvada (Gilead) which reported sales of US\$567m in 2005, given that the target market is patients who are showing resistant to these first line therapies. Table 4 below, outlines current HIV treatments on the market, including NRTIs.

Table 4 : Competitive landscape – Approved medications to treat HIV

Class of drug	Brand Name	Manufacture Name	Approval Date/ Time to Approval	Major 2005 Sales (US\$m)
(1) Nucleoside Reverse Transcriptase Inhibitors (NRTI) NRTS are faulty versions of building blocks that HIV needs to make more copies of itself. When HIV uses an NRTI instead of a normal building block reproduction of the virus is stalled.	Combivir (zidovudine + lamivudine)	GlaxoSmithKline	27-Sep-97 / 3.9 months	1061
	Emtriva	Gilead Sciences	02-Jul-03 / 10 months	47
	Epivir	GlaxoSmithKline	17-Nov-95 / 4.4 months	475
	Epzicom	GlaxoSmithKline	02-Aug-04 / 10 months	215
	Hivid	Hoffmann-La Roche	19-Jun-92 / 7.6 months	unknown
	Retrovir	GlaxoSmithKline	19-Mar-87 / 3.5 months	75
	Trizivir	GlaxoSmithKline	14-Nov-00 / 10.9 months	551
	Truvada	Gilead Sciences, Inc.	02-Aug-04 / 5 months	567
	Videx EC	Bristol Myers-Squibb	31-Oct-00 / 9 months	174 (together with Videx)
	Videx	Bristol Myers-Squibb	9-Oct-91 / 6 months	778
	Viread	Gilead	26-Oct-01 / 5.9 months	216
	Zerit	Bristol Myers-Squibb	24-Jun-94 / 5.9 months	248
	Ziagen	GlaxoSmithKline	17-Dec-98 / 5.8 months	
(2) Nonnucleoside Reverse transcriptase Inhibitors (NNRTI) NNRTIs bind to and disable reverse transcriptase a protein that HIV needs to make more copies of itself.	Rescriptor	Pfizer	4-Apr-97 / 8.7 months	20
	Sustiva	Bristol Myers-Squibb	17-Sep-98 / 3.2 months	680
	Viramune	Boehringer Ingelheim	21-Jun-96 / 3.9 month	370
(3) Protease Inhibitors (PI) PIs disable protease, a protein that HIV needs to make more copies of itself.	Agenerase	GlaxoSmithKline	15-Apr-99 / 6 months	204 (together with Lexiva)
	Lexiva	GlaxoSmithKline	20-Oct-03 / 10 months	unknown
	Aptivus	Boehringer Ingelheim	22-Jun-05 / 6 months	unknown
	Crixivan	Merck	13-Mar-96 / 1.4 months	unknown
	Fortovase	Hoffmann-La Roche	7-Nov-97 / 5.9 months	unknown
	Invirase	Hoffmann-La Roche	6-Dec-95 / 3.2 months	1005
	Kaletra	Abbott Laboratories	15-Sep-00 / 3.5 months	unknown
	Norvir	Abbott Laboratories	1-Mar-96 / 2.3 months	696
	Reyataz	Bristol-Myers Squibb	20-Jun-03 / 6 months	unknown
	Viracept	Agouron Pharma	14-Mar-97 / 2.6 months	na
(4) Fusion Inhibitors Fusion inhibitors work by blocking HIV entry into cells.	Enfuvirtide	Hoffmann-La Roche & Trimeris	13 March 03/ 6 months	88
	Atripla	Bristol-Myers Squibb and Gilead Sciences	12-Jul-06 / 2.5 months	na
(5) Multi-class Combination Products (Combination of Emtriva, Viread and Sustiva)				

Source: ABN AMRO Morgans; Company data; <http://www.fda.gov/oashi/aids/virals.html>

Table 5 outlines the HIV drugs in the NRTI class currently under development. Many of the myriad of other products on the market may potentially be combined with AVX754, as part of a combined treatment regimen.

Dexelvucitabine (DFC), previously known as Reverset, (Incyte) was an NRTI in Phase IIB clinical trials. Until mid-2006 we had considered this to be a potential competitor. An initial Phase IIB study had been completed. However, the small decline in viral load at two weeks (viral loads dropped by 0.3 logs in the 100mg DFC group, 0.4 logs in the 50mg DFC group, and 0.7 logs in the 200mg DFC group, compared to 0.03 logs in the placebo group) and a number of cases of pancreatitis led to Incyte halting development of this compound. This was advantageous to AVX754, which has not reported any adverse reactions. DFC had been partnered with Pfizer with Incyte expecting to receive US\$800m in future payments plus royalties; demonstrating how attractive these types of compounds are considered to be. Upon release of this news, Incyte's market cap lost approximately 50% in value (or US\$300m).

Table 5 : Competitive landscape – NRTI HIV drugs under development

Drug	Company	Development Status	Comment
Racivir	Pharmasset	Phase II	In its Phase II trial for resistant patients Racivir showed a 0.4log decrease after 28 days. This programme has also shown longer-term safety issues. Racivir is the two enantiomers of FTC, the does of 600mg indicates that Racivir is simply dosing greater amounts of FTC to aim to get an effect (FTC is currently dosed at 200mg).
Amdoxovir	RFS Pharma	Phase II	Amdoxovir is currently being studied in a phase II trial involving 40 treatment experienced HIV-positive patients. Very early data from this study has been presented. In the patients combining their current regimen with amdoxovir, viral load decreased, on average, by 0.37 log after two weeks. Among patients who combined their current regimen with amdoxovir and MMF, viral load decreased, on average, by 0.23 log after two weeks. 10 of the 40 patients in both groups have seen their viral load decrease by 0.5 log or more. Longer-term follow-up data from this study will likely be presented throughout 2006 and 2007. Toxicity issues were reported in pre-clinical trials.
Elvucitabine	Achillion Pharmaceuticals	Phase II	Still in early stage clinical trials, it is thought that Elvucitabine will be studied and used in combination with other drugs, including another NRTI and at least one protease inhibitor (PI) or non-nucleoside reverse transcriptase inhibitor (NNRTI). Previous studies of this drug into HIV patients with M184V showed a 0.67 log drop; however the trials were halted due to safety and toxicity issues.
Alovudine	Medivir	Phase II completed	Alovudine has been associated with side effects, including anaemia and neutropenia. Further development plans are unknown. We also understand that this programme was handed back to Medivir by Boehringer Ingelheim due to toxicity issues.
KP-1461	Koronis Pharmaceuticals	Phase Ib completed. Phase II to start in 2007.	Also known as SN1461 and SN1212. Little information is available to date; however it uses a different mode of action than other nucleosides. KP-1461 induces mutations in the HIV virus to render the virus's ability to replicate inactive.

Source: ABN AMRO Morgans

Table 6 : AVX - financial summary

Year to 30 Jun (A\$m)	AIFRS 2005A	AIFRS 2006A	AIFRS 2007F	AIFRS 2008F	AIFRS 2009F	Valuation price (A\$)	0.71	Price target (A\$)	1.42	
Income statement						Valuation metrics				
Divisional sales	0.0	0.2	0.2	0.2	35.2	Preferred methodology	DCF	Val'n (A\$)	\$ 1.42	
Total revenue	0.0	0.2	0.2	0.2	35.2	DCF valuation inputs				
EBITDA	-8.2	-12.3	-25.8	-36.0	18.9	Rf	5.75%	10-year rate	5.75%	
Associate income	0.0	0.0	0.0	0.0	0.0	Rm-Rf	4.50%	Margin	2.0%	
Depreciation	-6.0	-6.1	-12.7	0.0	0.0	Beta	2.09	Kd	7.75%	
EBITA	-14.2	-18.4	-38.5	-36.0	18.8	CAPM (Rf+Beta(Rm-Rf))	15.2%	Ke	15.2%	
Amortisation/impairment	0.0	0.0	0.0	0.0	0.0	E/EV*Ke+D/EV*Kd(1-t)				
EBIT	-14.2	-18.4	-38.5	-36.0	18.8	Equity (E/EV)	100.0%	Minority interest (A\$m)	0.0	
EBIT(incl associate profit)	-14.2	-18.4	-38.5	-36.0	18.8	Debt (D/EV)	0.0%	Net debt (A\$m)	-76.5	
Net interest expense	0.6	0.5	1.2	4.6	2.9	Interest rate	7.75%	Investments (A\$m)	0.0	
Pre-tax profit	-13.5	-17.8	-37.3	-31.4	21.7	Tax rate (t)	30.0%			
Income tax expense	0.0	0.0	0.0	0.0	0.0	WACC	15.2%	Diluted no. of shares (m)	405.8	
After-tax profit	-13.5	-17.8	-37.3	-31.4	21.7			DCF valuation (A\$)	1.42	
Minority interests	0.0	0.0	0.0	0.0	0.0					
NPAT	-13.5	-17.8	-37.3	-31.4	21.7	Multiples	2006A	2007F	2008F	2009F
Significant items	0.0	0.0	0.0	0.0	0.0	Enterprise value (A\$m)	265.9	209.6	238.3	227.5
NPAT post abnormals	-13.5	-17.8	-37.3	-31.4	21.7	EV/Sales (x)	1248.3	974.5	1096.8	6.5
						EV/EBITDA (x)	-21.6	-8.1	-6.6	12.1
Cash flow statement	2005A	2006A	2007F	2008F	2009F	EV/EBIT (x)	-14.5	-5.4	-6.6	12.1
EBITDA	-8.2	-12.3	-25.8	-36.0	18.9	PE (pre-goodwill) (x)	-7.8	-7.7	-9.1	13.2
Change in working capital	0.5	2.8	3.6	2.7	-10.9	PEG (pre-goodwill) (x)				
Net interest (pd)/rec	0.6	0.5	1.2	4.6	2.9	At target price	2006A	2007F	2008F	2009F
Taxes paid	0.0	0.0	0.0	0.0	0.0	EV/EBITDA (x)	-45.0	-19.3	-14.6	27.3
Other oper cash items	0.0	0.0	0.0	0.0	0.0	PE (pre-goodwill) (x)	-15.7	-15.4	-18.3	26.5
Cash flow from ops (1)	-7.0	-9.0	-21.0	-28.6	10.8	Comparable company data (x)	2007F	2008F	2009F	
Capex (2)	-0.1	-0.1	-0.1	0.0	0.0	Alchemia	EV/EBITDA	-12.1	-13.9	-245.3
Disposals/(acquisitions)	0.0	0.0	-12.7	0.0	0.0	Year to 30 Jun	EV/EBIT	-11.0	-12.6	-88.0
Other investing cash flow	0.0	0.0	0.0	0.0	0.0		PE	-12.6	-13.7	-90.8
Cash flow from invest (3)	-0.1	-0.1	-12.8	0.0	0.0		PEG	-3.6	-3.9	-25.9
Incr/(decr) in equity	23.5	14.4	90.0	0.0	0.0	Peplin	EV/EBITDA	-6.1	-7.8	-8.8
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	Year to 30 Jun	EV/EBIT	-6.0	-7.7	-8.6
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0		PE	-6.4	-6.6	-6.5
Preferred dividends (4)	0.0	0.0	0.0	0.0	0.0		PEG			
Other financing cash flow	-0.8	-0.8	0.0	0.0	0.0	Per share data	2006A	2007F	2008F	2009F
Cash flow from fin (5)	22.7	13.5	90.0	0.0	0.0	No. shares	197.5	405.8	405.8	405.8
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	EPS (cps)	-9.0	-9.2	-7.7	5.3
Inc/(decr) cash (1+3+5+6)	15.6	4.4	56.2	-28.7	10.8	EPS (normalised) (c)	-9.0	-9.2	-7.7	5.3
Equity FCF (1+2+4)	-7.1	-9.2	-21.0	-28.7	10.8	Dividend per share (c)	0.0	0.0	0.0	0.0
						Dividend payout ratio (%)	0.0	0.0	0.0	0.0
Balance sheet	2005A	2006A	2007F	2008F	2009F	Dividend yield (%)	0.0	0.0	0.0	0.0
Cash & deposits	15.7	20.2	76.5	47.8	58.6	Growth ratios	2006A	2007F	2008F	2009F
Trade debtors	0.1	0.0	0.0	0.0	5.6	Sales growth	384.1%	1.0%	1.0%	16109.2%
Inventory	0.0	0.0	0.0	0.0	0.0	Operating cost growth	52.8%	107.3%	39.2%	-54.8%
Investments	6.0	0.0	0.0	0.0	0.0	EBITDA growth	51.0%	109.1%	39.5%	-96.8%
Goodwill	0.0	0.0	0.0	0.0	0.0	EBITA growth	29.8%	109.5%	-6.5%	-96.8%
Other intangible assets						Operating performance	2006A	2007F	2008F	2009F
Fixed assets	0.1	0.2	0.2	0.2	0.2	Asset turnover (%)	0.3	0.1	0.1	15.6
Other assets	0.1	0.1	0.1	0.1	0.1	EBITDA margin (%)	-5787.3	-11982.2	-16547.7	53.6
Total assets	22.0	20.6	76.9	48.2	64.6	EBIT margin (%)	-8628.6	-17897.0	-16559.5	53.5
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Net profit margin (%)	-8377.5	-17332.8	-14447.7	61.6
Trade payables	0.7	3.4	7.0	9.7	4.4	Return on net assets (%)	-108.6	-55.3	-94.2	31.4
Long-term borrowings	0.0	0.0	0.0	0.0	0.0	Net debt (A\$m)	-20.2	-76.5	-47.8	-58.6
Provisions	0.0	0.0	0.0	0.0	0.0	Net debt/equity (%)	-119.6	-109.9	-125.1	-97.9
Other liabilities	0.2	0.3	0.3	0.3	0.3	Net interest/EBIT cover (x)	34.4	31.7	7.8	-6.6
Total liabilities	0.9	3.7	7.3	10.0	4.7	ROIC (%)	-238.9	814.7	366.0	-137.2
Preference shares						Internal liquidity	2006A	2007F	2008F	2009F
Hybrid equity						Current ratio (x)	5.6	10.6	4.8	13.8
Share capital	34.6	48.2	100.8	69.4	91.2	Receivables turnover (x)	4.3	6.3	6.3	12.5
Other reserves	0.0	0.0	0.0	0.0	0.0	Payables turnover (x)	6.2	5.0	4.3	2.3
FCTR										
Unrealised gains/losses										
Retained earnings	-13.5	-31.2	-31.2	-31.2	-31.2					
Other equity	0.0	0.0	0.0	0.0	0.0					
Total equity	21.1	16.9	69.6	38.2	59.9					
Minority interest	0.0	0.0	0.0	0.0	0.0					
Total shareholders' equity	21.1	16.9	69.6	38.2	59.9					
Total liabilities & SE	22.0	20.6	76.9	48.2	64.6					

Source: Company data, ABN AMRO Morgans forecasts

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