

# HEALTH CARE SECTOR REVIEW



## Sector Report

### SECTOR REVIEW – JULY 2015

#### Key Large Cap Updates

CSL (CSL): Acquires exclusive global rights to commercialise Rapivab, a single-dose intravenous treatment for acute uncomplicated influenza

Sonic Healthcare (SHL): Becomes market leader in Switzerland following acquisition of medical laboratory group Medisupport

Healthscope (HSO): Divests underperforming Australian pathology division to Sydney-based private equity firm Crescent Capital Partners

Ansell (ANN): Announces additional cost-cutting initiatives aimed at increasing operating efficiencies

Primary Health Care (PRY): ATO approves tax deductibility of practice acquisitions made between FY10 and FY14

Sirtex Medical (SRX): Announces promising additional analysis of its SIRFLOX trial data with respect to Progression-Free Survival in the liver

#### Key Small Cap Updates

Polynovo (PNV): Experts publish excellent clinical results for NovoSorb polymer

Cicadian Technologies (CIR): FDA approves Phase 1 clinical trial of OPT-302

Medical Developments (MVP): Significant European distribution deal for Pentrox

8 July 2015

**Analyst:** Ben Kakoschke  
**Phone:** (+61 3) 9242 4181  
**Email:** bkakoschke@psl.com.au

#### Index Monthly Return

**Pharmaceuticals & Biotechnology** -3.4%  
**Equipment & Services** 0.9%  
**S&P / ASX 200** -0.8%

#### KEY RECOMMENDATIONS:

1. ACCUMULATE CSL: Strong position in defensive markets; benefit from lower AUD
2. ACCUMULATE SRX: Strong salvage therapy growth; potential use in first-line therapy de-risked

Figure 1: Summary of large cap key data

Company	Code	Price	MC (\$m)	EV* (\$m)	PE (x)			EPS Growth (%)			Yield (%)			Bloomberg		
					FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17	BUY	HOLD	SELL
<b>Pharmaceuticals &amp; Biotechnology</b>																
CSL	CSL	88.14	40,970	43,103	22.1	20.2	18.1	7.2	9.4	11.7	1.9	2.1	2.3	14	0	3
Mesoblast	MSB	3.89	1,311	1,175	-	-	-	-	-	-	-	-	-	3	2	3
Sirtex Medical	SRX	30.50	1,724	1,677	48.4	33.9	26.3	46.5	42.9	28.9	0.6	1.0	1.4	7 ↑	2	2 ↓
<b>Health Care Equipment &amp; Services</b>																
Ansell	ANN	24.20	3,706	4,268	15.0	13.9	13.1	10.0	7.4	6.2	2.4	2.5	2.7	4	8	4
Cochlear	COH	81.06	4,627	4,783	29.7	25.3	23.4	42.2	17.6	7.8	2.4	2.8	3.0	2	5	9
Fisher & Paykel Healthcare	FPH	6.34	3,539	3,583	35.5	30.9	25.4	11.1	15.0	21.7	2.0	2.3	2.7	4	2	3
Healthscope	HSO	2.71	4,694	5,689	27.9	24.6	21.3	-	13.4	15.5	2.5	2.8	3.2	6 ↑	4 ↓	3
Primary Health Care	PRY	5.14	2,652	3,722	19.0	17.1	16.1	-	11.1	6.7	3.9	4.1	4.5	6	6	4
Ramsay Health Care	RHC	62.04	12,537	15,328	31.0	26.6	23.6	22.0	16.5	12.9	1.6	1.9	2.2	5	8	3
ResMed	RMD	7.23	10,184	9,749	20.8	19.3	17.4	8.3	7.7	10.7	2.2	2.6	2.8	6 ↑	6	3
Sonic Healthcare	SHL	22.36	8,989	10,821	22.4	18.3	16.9	4.7	22.0	8.2	3.2	3.8	4.1	6 ↓	8 ↑	2
Sigma Pharmaceuticals	SIP	0.76	826	789	15.1	14.2	13.5	8.7	6.0	5.7	2.6	5.4	6.0	2 ↑	7	4 ↓

Source: Bloomberg consensus estimates and IRESS

\*FY15 net debt used for EV

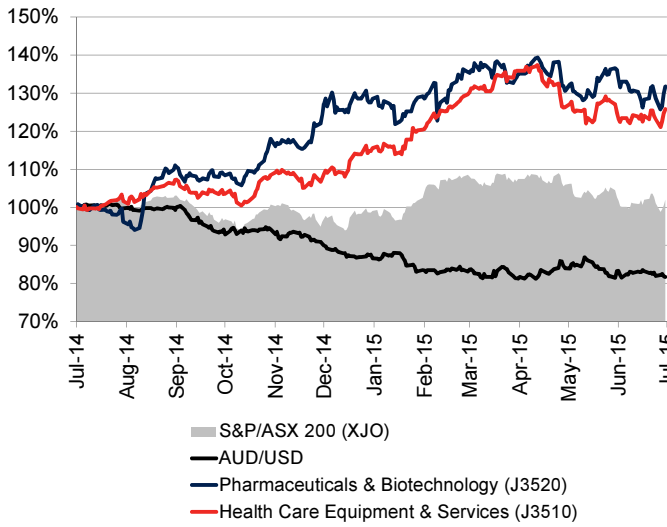
Figure 2: Summary of covered small caps

Company	Code	Rec	Price (\$)	MC (\$m)	Net Cash (\$m)	Potential Catalysts (0 - 12 months)	Potential Catalysts (12+ months)
Analytica	ALT	-	0.02	16	2.0	<ul style="list-style-type: none"> <li>• Early indications of sales growth</li> <li>• PeriCoach launch in US</li> </ul>	<ul style="list-style-type: none"> <li>• PeriCoach market penetration</li> <li>• Delivering earnings growth</li> <li>• Potential takeover target</li> </ul>
Antisense Therapeutics	ANP	SPEC BUY	0.12	20	6.8	<ul style="list-style-type: none"> <li>• ATL1103 higher dose study</li> <li>• ATL1102 Phase 2 progress</li> </ul>	<ul style="list-style-type: none"> <li>• Major pharma licensing proposals</li> <li>• Global antisense transactions</li> <li>• In-licensing additional compounds</li> </ul>
Capitol Health	CAJ	HOLD	0.83	431	(75.4)	<ul style="list-style-type: none"> <li>• Integration of NSW acquisitions</li> <li>• Additional acquisitions</li> <li>• Solid industry organic growth</li> </ul>	<ul style="list-style-type: none"> <li>• More gap-charging services</li> <li>• Further acquisitions</li> <li>• Potential takeover target</li> </ul>
Innate	IIL	SPEC BUY	0.18	29	4.1	<ul style="list-style-type: none"> <li>• Complete recruitment for Phase 2B</li> <li>• Updates from expanded 'compassionate use' programme</li> </ul>	<ul style="list-style-type: none"> <li>• Dosing of last enrolments in 1Q 2016</li> <li>• Final Phase 2B report in early 2016</li> </ul>
Mayne Pharma	MYX	BUY	1.01	791	(39.7)	<ul style="list-style-type: none"> <li>• Successfully transitioning Doryx in-house</li> <li>• Sustained benefit of lower AUD/USD</li> <li>• Further progress with SUBACAP</li> <li>• FDA approval of products in 2015</li> </ul>	<ul style="list-style-type: none"> <li>• News flow from generic pipeline of 26 products (16 filed with FDA)</li> <li>• FDA approval of a generic version of Tikosyn with 180-day exclusivity</li> </ul>

Source: Patersons Securities

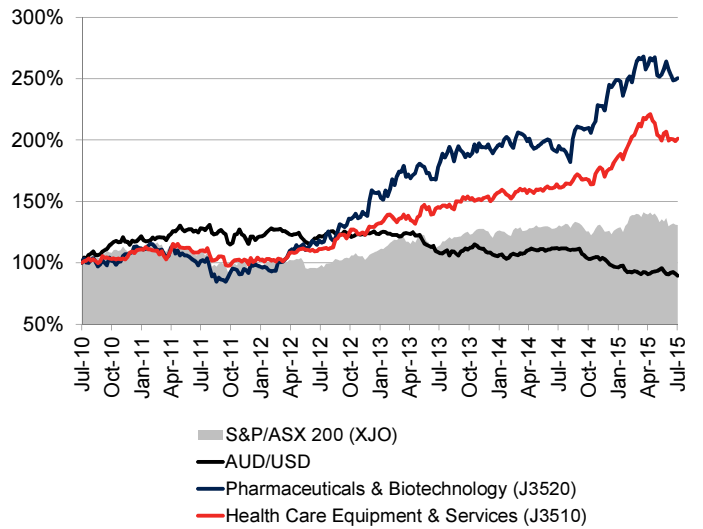
## Sector Performance

Figure 3: 12-month index performance



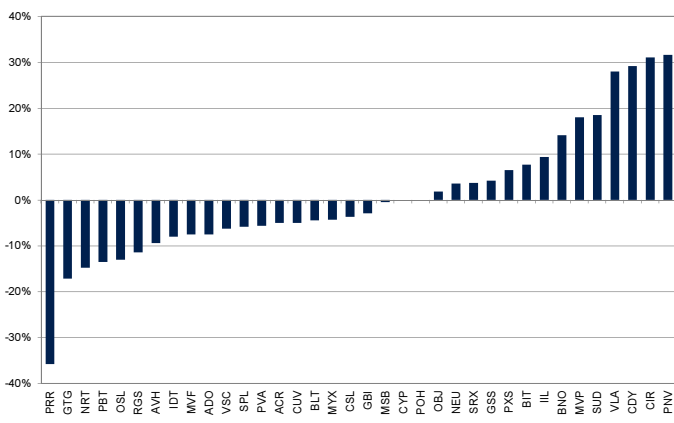
Source: Patersons Securities and IRESS

Figure 4: 5-year index performance



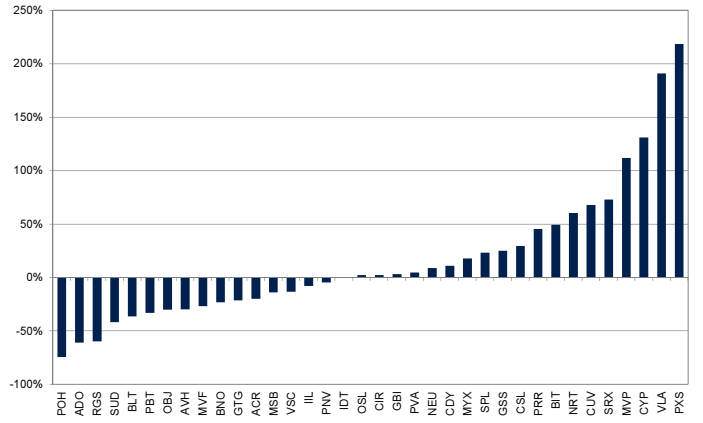
Source: Patersons Securities and IRESS

Figure 5: Monthly Pharmaceuticals & Biotech. movers



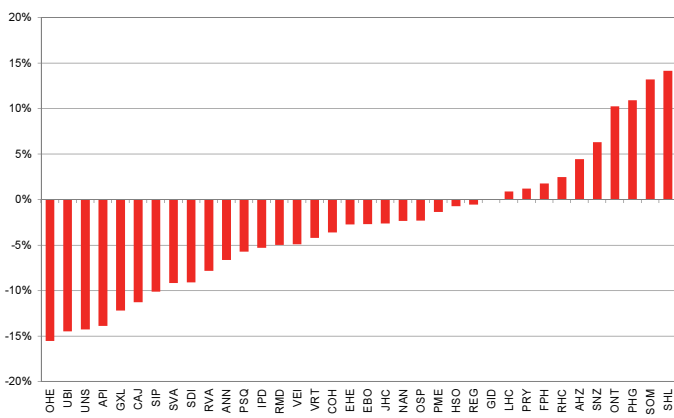
Source: IRESS

Figure 6: Yearly Pharmaceuticals & Biotech. movers



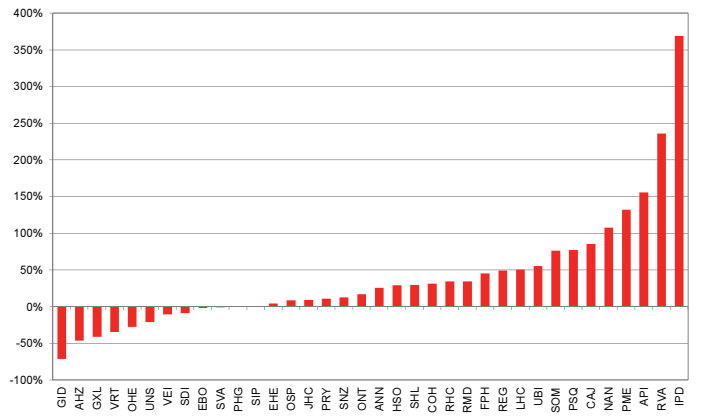
Source: IRESS

Figure 7: Monthly Equipment & Services movers



Source: IRESS

Figure 8: Yearly Equipment & Services movers



Source: IRESS

## Intrinsic Valuations

Figure 9: CSL (required return 9.4%)

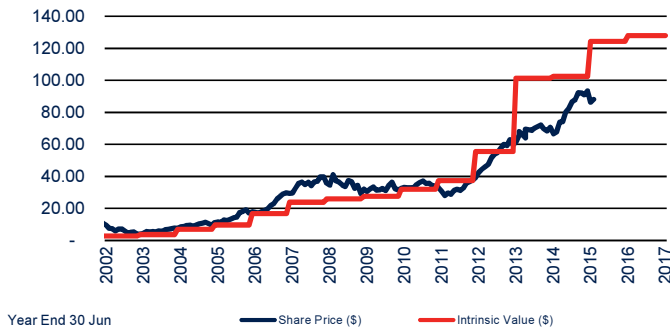


Figure 10: Sirtex Medical (required return 9.5% - previously 10.0%)

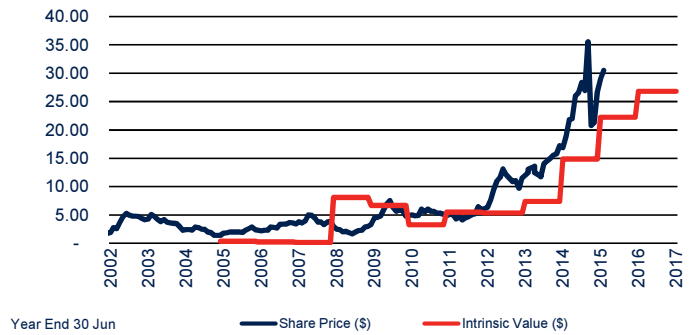


Figure 11: Ansell (required return 10.9%)

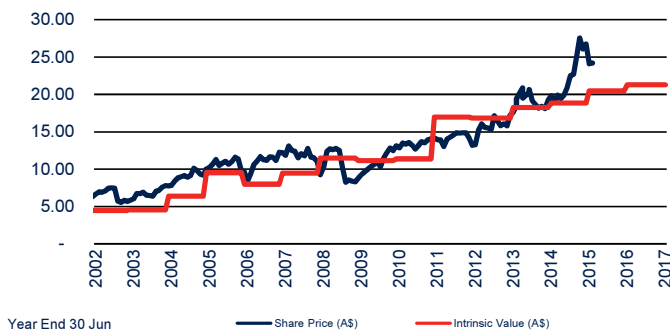


Figure 12: Cochlear (required return 9.1%)

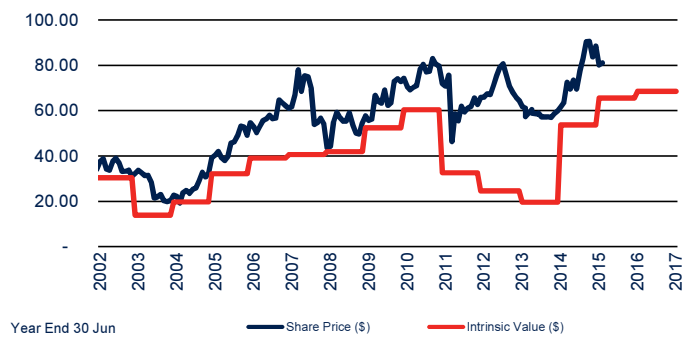


Figure 13: Fisher & Paykel H/C. (required return 10.0%)

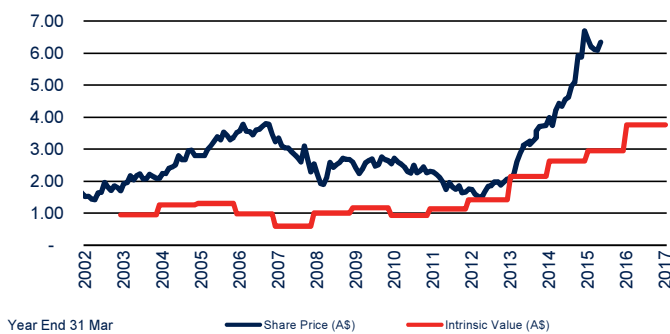


Figure 14: Ramsay Health Care (required return 9.1%)

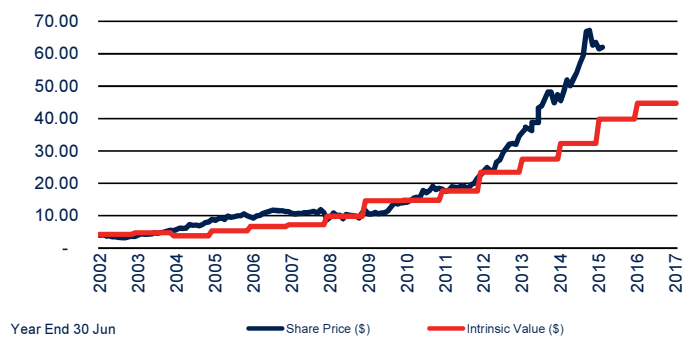


Figure 15: ResMed (required return 9.2%)

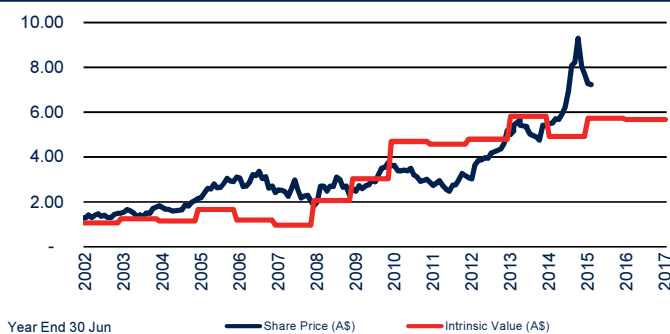


Figure 16: Sonic Healthcare (required return 9.3%)



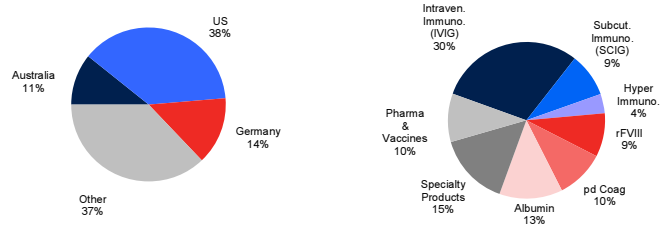
Source: Patersons Securities (selected companies have a historical ROE and Bloomberg consensus ROE in excess of required return)

# Overview of Large Caps

Figure 17: Company overview, divisions and geographic spread

## Pharmaceuticals & Biotechnology

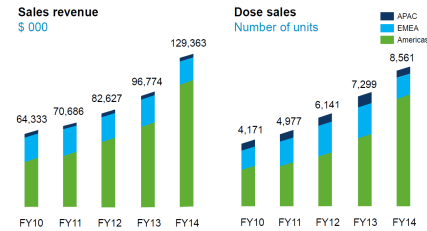
**CSL**  
 CSL develops, manufactures and markets biopharmaceutical products. The blood plasma industry has consolidated into a few fully-integrated global suppliers. Control of supply, scale of operations, and integration of services from blood collection to product manufacture gives CSL a competitive advantage difficult to replicate. Industry consolidation led to favourable pricing and lifted returns. The Company's human papillomavirus (HPV) vaccine offers a new stream of earnings, with royalty revenue from Merck's Gardasil and GlaxoSmithKline's Cervarix.



**Mesoblast**  
 MSB is developing adult stem cell therapies based on its proprietary mesenchymal precursor cells, or MPCs, extracted from bone marrow. The therapy is non-controversial, unlike some other stem-cell therapies, while clinical trial progress implies a high probability of success. Large underserved potential markets include heart failure patients, bone-marrow regeneration in cancer patients, and several orthopedic indications. A potentially highly lucrative licensing deal with Teva Pharmaceuticals provides strong endorsement of the technology platform. Notwithstanding the potential launch of JR-031 in Japan in 2015, and potentially MSC-100-IV in 2017, product sales using the proprietary MPC platform are unlikely before 2019. In the absence of partnering deals over the next 18 months, the Company will most likely return to the capital markets, raising the risk of dilution to existing shareholders.

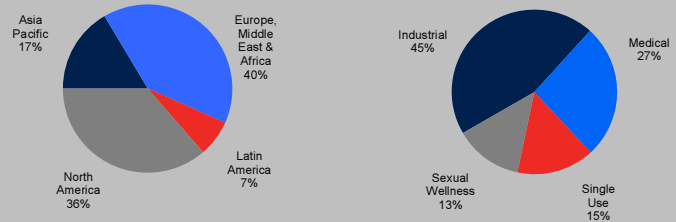


**Sirtex Medical**  
 SRX has developed an effective treatment for liver cancer that involves the infusion of radioactive microspheres that selectively target liver tumours. Sales growth has become consistently strong despite the treatment still being used chiefly as a last resort. Large scale trials in progress should significantly promote use. Gross margins are in excess of 80%. Risks include weak intellectual property protection, SRX's limited resources, and single product portfolio along with the more generic risk of obsolescence.

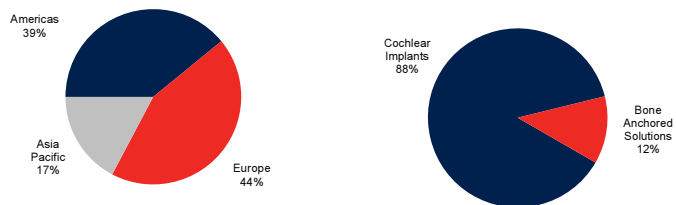


## Health Care Equipment & Services

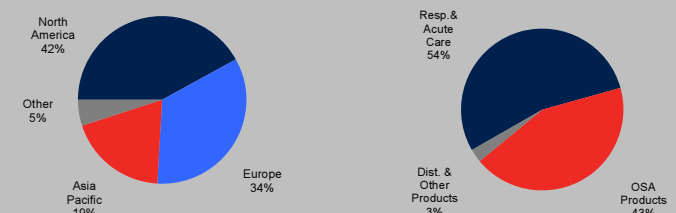
**Ansell**  
 ANN is a global leader in protective health and safety protection solutions. Operations spread across four business segments covering industrial, medical, specialty markets and sexual wellness. Products are predominantly made of natural and synthetic latex, exposing ANN to price fluctuations in rubber and latex concentrates. Low levels of debt offer prospects for further capital initiatives or acquisitions. No franking credits means free cashflow is distributed predominantly through share buybacks.



**Cochlear**  
 COH's implantable device is the gold standard for enabling profoundly hearing impaired patients to hear. The Company is an innovative leader in not overly competitive and growing markets. Growth stems from further penetration of existing markets and entry into undeveloped markets such as South America, Eastern Europe and China. Acquisition of Entific extends the presence to the larger partially-impaired market. COH invests 12% of sales in research and development to remain at the technology forefront. The Company is a strong cash generator with impressive operating margins around 30% and modest capex requirements.



**Fisher & Paykel Healthcare**  
 FPH is the world's leading provider of Respiratory and Acute Care (RAC) products and commands a high market share. It also produces Continuous Positive Airway Pressure (CPAP) and masks for treatment of Obstructive Sleep Apnoea (OSA). The Company has unveiled a slew of new products and interfaces in respiratory and sleep apnoea which should boost revenue and earnings over the long term. North America is a key growth area for FPH and a critical market for OSA. Earnings are sensitive to the NZ\$/US\$ exchange rate.



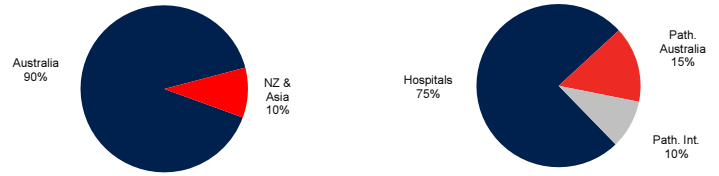
Source: Patersons Securities, Company Reports

# Overview of Large Caps

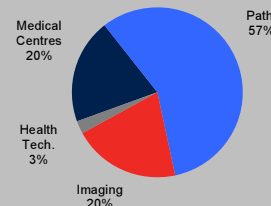
Figure 18: Company overview, divisions and geographic spread

## Health Care Equipment & Services

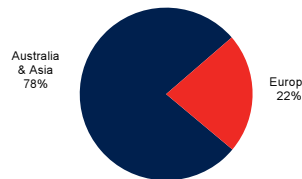
**Healthscope**  
 HSO is Australia's second largest private hospital operator and a leading provider of private pathology services in New Zealand, Malaysia and Singapore. It operates 44 private hospitals in Australia and an International Pathology business in New Zealand, Malaysia, Singapore and Vietnam. The Company is a leading integrated healthcare services provider in each of its market segments. Its growth strategy includes a focus on organic growth, brownfields developments, PPPs/Government outsourcing, and international expansion. We note that the Australian Pathology operations referenced in the charts to the right are currently being divested.



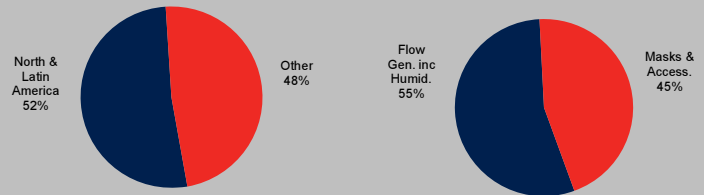
**Primary Health Care**  
 PRY, together with Sonic Healthcare's Independent Practitioner Network, is a leader in Medical Centre management while its pathology division is part of an oligopoly with Sonic Healthcare and Healthscope. These strong industry positions and the non-discretionary nature of medical services imply usually reliable and modestly growing earnings, underpinned by the ageing population. Managing director Edmund Bateman is PRY's principal founder and is responsible for delivering phenomenal returns through the development of 24-hour medical centres. The acquisition of Symbion Healthcare in 2008 transformed the asset pool. The merged group is the largest domestic pathology provider.



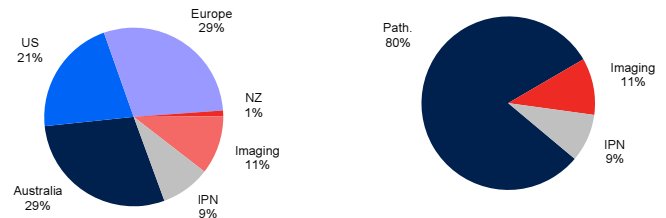
**Ramsay Health Care**  
 RHC is a premier private hospital operator generating industry-leading margins. Strong cashflow from the portfolio of quality hospitals is invested to enhance facilities. It has over 117 hospitals and day care facilities, 30,000 staff, manages over 10,000 beds and has annual revenue of over \$4bn. The Company operates a decentralised control structure to empower operators. Many of the hospitals present natural monopolies for their region because of location, scale and reputation. Offshore expansion provides another leg of growth as RHC exports its business practices.



**ResMed**  
 Sleep apnoea is a huge medical problem that can go unnoticed and untreated. RMD is helping lead the charge on sleep apnoea and should benefit from strong growth for the long run by serving this huge potential marketplace. If the Company continues to up the innovation ante with new product introductions, including new airflow generators, masks and nasal pillows, it should remain an influential leader in this market for the foreseeable future. Operating margins are impressive, typically exceeding 20%. In 2012 RMD began paying dividends. The balance sheet has net cash. We think growth-oriented investors should consider buying shares of this narrow moat firm at a reasonable price.



**Sonic Healthcare**  
 Technological innovation has cut the cost of a general pathology test, translating into bigger profit margins. SHL leverages this know-how in overseas markets to deliver the next stage of growth. The US, Germany and UK offer scope to deliver efficiency through acquisitions, and international scale will further enhance buying power. The federation business model aims to empower its operators to focus on revenues while SHL consolidates back office processing.



**Sigma Pharma.**  
 SIP is one of Australia's three pharmaceutical wholesalers. Earlier in its history it impressed on a number of fronts and successfully grew both organically and by acquisition. In late 2005, it merged with Arrow Pharmaceuticals, a rapidly growing generics player, which proved an expensive exercise after profitability in the generics sector plummeted. In late 2010, SIP sold its manufacturing and generics business to Aspen Pharmacare, helping to reduce debt.

Source: Patersons Securities, Company Reports

## Pharmaceuticals & Biotechnology Sector News

CSL (CSL) – market cap \$41.0bn (down 4% for month)

CSL develops, manufactures and markets biopharmaceutical products. The blood plasma industry has consolidated into a few fully-integrated global suppliers. Control of supply, scale of operations, and integration of services from blood collection to product manufacture gives CSL a competitive advantage difficult to replicate. Industry consolidation led to favourable pricing and lifted returns. The Company's human papillomavirus (HPV) vaccine offers a new stream of earnings, with royalty revenue from Merck's Gardasil and GlaxoSmithKline's Cervarix.

CSL has acquired the exclusive global rights (excluding Japan, Korea, Taiwan and Israel) to commercialise Rapivab, a single-dose intravenous treatment for acute uncomplicated influenza. The drug was developed by US-based biotech BioCryst Pharmaceuticals, under contract with the U.S. government, as part of pandemic efforts. Rapivab was approved by the FDA in December 2014 for patients 18 years and older who have shown symptoms of flu for no more than two days. Since launch, an estimated 1m patients have been treated with the product.

Under the terms of the agreement, CSL will pay BioCryst a combination of an upfront payment of US\$34m, US\$12m in milestone payments subject to regulatory approval, and an ongoing royalty stream. We believe the in-licensing of Rapivab adds incrementally to CSL's influenza vaccine business and complements its acquisition of the Novartis global influenza vaccine unit in October 2014. Notably, the Novartis acquisition elevated CSL to being the second-largest provider of influenza vaccine globally and brought in a next-generation cell culture technology to support a rapid and scalable response to potential pandemic outbreaks.

Sirtex Medical (SRX) – market cap \$1.7bn (up 4% for month)

SRX has developed an effective treatment for liver cancer that involves the infusion of radioactive microspheres that selectively target liver tumours. Sales growth has become consistently strong despite the treatment still being used chiefly as a last resort. Large scale trials in progress should significantly promote use. Gross margins are in excess of 80%. Risks include weak intellectual property protection, SRX's limited resources, and single product portfolio along with the more generic risk of obsolescence.

The Company announced promising additional analysis of its SIRFLOX trial data specifically related to patient sub-groups with respect to the secondary endpoint, Progression-Free Survival (PFS) in the liver. Specifically, median PFS in the liver of patients with liver-only metastases in the SIR-Sphere arm was 8.7 months improved compared with similar patients in the control arm, at a statistically significant level. Similarly, patients with liver and extra-hepatic metastases showed a 4.1 month extension in median PFS in the liver. Although both metrics are positive, we note the clinical trial was designed and powered with the primary endpoint of PFS in mind, and not PFS specifically in the liver. Notably, the clinical benefit of SIR-Spheres was the same in patients irrespective of the use of bevacizumab in the FOLFOX chemotherapy combination. Delineation of liver-only sub-group data strengthens the case for SIR-Spheres in the liver on an incremental basis, in our opinion, which bodes well for adoption by oncologists and commercial prospects. Nonetheless, missing the primary endpoint in the SIRFLOX trial adds to the importance of strong data being generated in other clinical trials now underway.

Mesoblast (MSB) – market cap \$1.3bn (down 1% for month)

MSB is a medical research and development company developing therapies that utilise Mesenchymal Precursor Cells (MPC) extracted from bone marrow. The therapy is non-controversial, unlike some other stem-cell therapies, while clinical trial results indicate a high probability of success. Large underserved potential markets include heart failure patients, bone marrow regeneration in cancer patients and several orthopaedic indications such as intervertebral disc repair. A potentially highly lucrative licensing deal with US biotech Cephalon (now owned by Teva Pharmaceuticals) provides strong endorsement of the technology platform. Product sales are unlikely before 2015 but additional revenue from partnering deals is likely.

MSB reported promising top-line results from its Phase 2 trial on patients with diabetic kidney disease. The data showed that a single infusion of its intravenously delivered proprietary mesenchymal precursor cell product candidate MPC-300-IV was safe, reduced damaging inflammation, and preserved or improved renal function during a period of at least 24 weeks. The findings were presented at the American Diabetes Association meeting in Boston and should support advancing the clinical program on patients with rapid progression towards dialysis, or renal transplantation, of the disease and at high risk of cardiovascular events. Notwithstanding Celgene's six-month right of first refusal, the positive findings in diabetic kidney disease bode well for partnering prospects in the short term. Importantly, MPC-300-IV is also being used in a 48-patient Phase 2 trial in biologic refractory rheumatoid arthritis, which should render data in coming months. If positive, that would most likely bolster the commercial appeal and bargaining power for MSB in any associated licencing deal.

## Health Care Equipment & Services Sector News

Sonic Healthcare (SHL) – market cap \$9.0bn (up 14% for month)

Over the past two decades SHL has built a dominant position in the Australian medical diagnostics market and is now the largest Australian pathology laboratory operator. The Company invested heavily throughout the six years to 2011 to establish critical mass in the US and European pathology markets and is now generating synergies from acquired businesses. We expect steady realisation of synergies in the U.S. and European markets to gradually boost margins for many years and help drive earnings per share growth of around 10% during the next five years. A number of dynamics underpin pathology test volumes globally, including ageing populations, the economic benefits of preventative medicine and ongoing innovation in pathology testing technology.

SHL acquired the Swiss medical laboratory group Medisupport for \$455m, comprising \$385m in cash and \$70m of equity issued to the founders and partners. Medisupport is one of the market leaders in Switzerland with operations in 10 cities including Zurich. The acquisition, combined with its existing business, moves SHL to a market leading position in Switzerland with 13% of the broader pathology market. Excluding tests conducted by small private and larger public laboratories, SHL's share of the addressable Swiss market is closer to 25%. It also expands the Company's testing capabilities through the addition of genetic/esoteric testing expertise. Medisupport has annual revenue of CHF160m (\$220m) and doubles SHL's existing Swiss business. The deal consideration represents a prospective EBITDA multiple of 8 times and is expected to be EPS accretive in FY16 by c8%.

Healthscope (HSO) – market cap \$4.7bn (down 1% for month)

HSO is Australia's second largest private hospital operator and a leading provider of private pathology services in New Zealand, Malaysia and Singapore. It operates 44 private hospitals in Australia and an International Pathology business in New Zealand, Malaysia, Singapore and Vietnam. The Company is a leading integrated healthcare services provider in each of its market segments. Its growth strategy includes a focus on organic growth, brownfields developments, PPPs/Government outsourcing, and international expansion.

The Company announced the sale of its Australian pathology division to Sydney-based private equity firm Crescent Capital Partners for \$105m. We view the news as positive given the division's drag on Group performance, as evidenced by the 1H15 EBIT loss of \$3.7m. The business is a legacy of the Gribbles acquisition back in 2004 and lacked sufficient scale to drive operational efficiencies, compared with peers Sonic Healthcare and Primary Health Care. The Australian pathology division consists of c550 collection centres and 31 pathology laboratories located in Victoria, South Australia, New South Wales and the Northern Territory. The sale will also include six skin clinics from HSO's Medical Centre operations. The consideration will comprise cash of \$92.5m and a promissory note of \$12.5m, with funds earmarked for HSO's brownfield development pipeline.

Ansell (ANN) – market cap \$3.7bn (down 7% for month)

ANN is a global leader in protective health and safety protection solutions. Operations spread across four business segments covering industrial, medical, specialty markets and sexual wellness. Products are predominantly made of natural and synthetic latex, exposing ANN to price fluctuations in rubber and latex concentrates. Low levels of debt offer prospects for further capital initiatives or acquisitions.

The Company has announced several new cost-cutting initiatives aimed at increasing operating efficiencies. These include closure of underutilised office and warehousing locations, the transfer of staff to lower-cost locations, a rationalisation of non-core product lines and limited right-sizing of sales teams in key regions. The cost of implementation will be largely offset by the one-off after-tax profit of cUS\$18m on the sale of the Shah Alam property in Malaysia. The news is consistent with current restructuring efforts which commenced in 2014. ANN has guided annualised pre-tax benefits from these initiatives of US\$15m with cUS\$8m in FY16.

Primary Health Care (PRY) – market cap \$2.7bn (up 1% for month)

PRY provides investors with exposure to a diverse portfolio of health-care assets: medical centre management, pathology services, radiology services, and a smaller business that provides software solutions to medical general practices. Providing essential medical services generates dependable earnings streams, although regulation constrains growth. A growing government focus on preventative health, due to superior health outcomes and therefore less pressure on public finances, further underpins the 50% of earnings derived from the diagnostic (radiology and pathology) divisions. The group should also benefit from an aging population, which will drive increasing demand for medical services.

PRY expects to bring to account in FY15 a cash refund from the Australian Taxation Office (ATO) of c\$130m for payments made in the acquisition of medical and health-care practices between FY10 and FY14. The amount relates to upfront payments originally treated by PRY as capital in nature for taxation purposes, but now deemed tax deductible. As a result of the ATO ruling, the payment will most likely be recognised as revenue for the acquired practice vendor. Notwithstanding the increased uncertainty from the perspective of the acquired medical practitioners' tax position, we expect this decision, in conjunction with the revised accounting policies unveiled at the interim result, will lead to more flexible financial arrangements for future acquisitions and be included in the strategic review now underway. PRY plans to apply for an additional cash refund for the years dating back to FY03, which could trigger an additional \$60m refund.

## Key Small Cap Updates

### *Strong Monthly Performers*

Polynovo (PNV) – market cap \$42m (up 32% for month)

The Company announced that Associate Professor John Greenwood AM, and colleagues at the Royal Adelaide Hospital, have published a follow-up paper in *ePlasty* which documents excellent clinical results in patients following the improvements that PNV made to the Biodegradable Temporising Matrix (BTM) product following the Free Flap donor site reconstruction trial. *ePlasty* is a peer-reviewed open-access journal. Included within the paper are sequential photographs of BTM integration and wound healing along with measurement data and histopathological analysis. The authors report that the NovoSorb polymer has almost completely biodegraded, resulting in a neo-dermal skin structure replacing the polymer in every patient. This is consistent with the desired properties and in-use goals and represents the fulfilment of an important regulatory requirement. In addition, split-skin graft take (success) rate was 100%. No infections were observed, important in view of its intended use in burn patients and open wounds.

Circadian Technologies (CIR) – market cap \$29m (up 31% for month)

Opthea, a wholly-owned subsidiary of CIR, announced that the FDA has approved its Investigational New Drug (IND) application to initiate its Phase 1 clinical trial of OPT-302 in patients with wet age-related macular degeneration (wet AMD). Opthea's first-in-human multi-centre clinical trial is a sequential dose escalation study of OPT-302 administered to patients with wet AMD on a monthly basis for three months by ocular injection either alone or in combination with ranibizumab (Lucentis). The primary endpoint of the study will be an assessment of the safety and tolerability of OPT-302. Secondary endpoints include the pharmacokinetic profile of OPT-302 as well as preliminary measures of clinical efficacy as measured by visual acuity (eye charts) and sophisticated imaging techniques to determine retinal thickness and wet AMD lesion area using optical coherence tomography and fluorescein angiography.

Medical Developments (MVP) – market cap \$159m (up 18% for month)

MVP announced that it has agreed to a Term Sheet and will now move to contract with a significant pharmaceutical company having expertise in pain management products to distribute Pentrox within the 28 member states of the European Union, except for the UK, Ireland, and Hungary where it has existing distribution agreements, and within other European countries. The potential transaction calls for upfront and milestone payments of US\$54.5m, comprising US\$7.0m upon signing, US\$3.0m upon receiving Marketing Authorisation approvals in France (expected very shortly) and Belgium (already received), US\$7.0m upon receiving reimbursement in Germany, Italy, Spain and France, and US\$37.5m relating to sales milestones. In addition, MVP will receive a gross margin on product sold to the distribution partner and royalties based on net sales. The Company expects to sign final contracts in circa 8 weeks and will make a more detailed announcement at that time.

CEO John Sharman indicated that it is a very significant deal and potentially underwrites the future success of Pentrox in Europe. The new distribution partner estimates peak sales could be c10m per annum and it will be responsible for investing into the development of Pentrox and registering Pentrox throughout Europe. In addition, Chairman David Williams indicated that there are a large number of opportunities for Pentrox globally and MVP is now focused on registration in North America where there is already interest from companies wanting to become distribution partners.

### **Disclosures:**

***Patersons Securities Ltd acted as Lead Manager to a Share Placement to raise \$0.9m and Rights Issue to raise \$3.2m at 3.0 cents per share for Analytica Ltd in October 2014. It also acted as Lead Manager to a Share Placement that raised \$1.8m and Rights Issue that raised \$1.2m at 2.4 cents per share for Analytica Ltd in May 2014; and Underwriter to a Share Purchase Plan that raised \$1.8m at 1.7 cents per share for Analytica Ltd in September 2013. It was paid fees for these services.***

***Patersons Securities Ltd acted as Lead Manager to a Share Placement to raise \$1.0m and Share Purchase Plan to raise \$1.5m at 11.5 cents per share for Antisense Therapeutics Ltd in October 2014. It also acted as Lead Manager to a Loyalty Option Issue that raised \$0.5m for Antisense Therapeutics Ltd in December 2013. It was paid fees for these services. Patersons Securities Ltd is also currently retained as a Corporate Adviser, for which fees will be paid.***

***Patersons Securities Ltd acted as Joint Lead Manager to the Initial Public Offer that raised \$10.0m at 20.0 cents per share for Innate Immunotherapeutics in December 2013. It was paid a fee for this service.***



## Overview of Covered Small Caps

Figure 19: Business model, catalysts and risks

Company	Business Description	Key Focus	IP Portfolio and Key Relationships	Drivers	Risks
<b>Pharmaceuticals &amp; Biotechnology</b>					
Antisense Therapeutics	Drug development company focused on developing antisense drugs. The Company has sufficient funding well into 2014 (including the ATL1103 Phase 2 clinical trial) and its technology platform was validated in January 2013 by Isis receiving FDA approval for the world's first antisense drug administered systemically (injected).	ATL1103 targets diseases associated with excessive Growth Hormone and IGF-I action like Acromegaly. ATL1102 is an antisense inhibitor of VLA-4 protein, a clinically validated target in MS and potentially asthma. ATL1101 is an inhibitor of IGF-IR, an emerging target in oncology.	Exclusive world-wide rights to three compounds in- licensed from Isis Pharmaceuticals Inc, the world leader in antisense drug development and commercialisation.	ATL1103: higher dose study for potential use in a Phase 3 trial. ATL1102: move into further Phase 2 studies. ATL1101: progress of potential partnering / development plans.	General pharmaceutical operating risks: long lead times and uncertainty of result outcomes; complex government health regulations; intense competition; loss of key personnel; potential product liability; additional capital requirements.
Innate Immuno-therapeutics	Medical biotechnology company based in Auckland. It has designed and manufactured a unique microparticle technology which can be used to induce the human immune system to fight certain cancers and infections, or turn off immune mechanisms that lead to autoimmune diseases such as Multiple Sclerosis.	MIS416 is the lead product from Innate's proprietary immune modulating microparticle technology. Due to the significant degree of unmet medical need, Secondary Progressive Multiple Sclerosis was selected as the initial clinical target. There are no effective therapies currently approved for SPMS.	Innate has designed, manufactured and patented a process to cross-link multiple naturally occurring ligands to a stable microparticle. When administered, it exploits cellular uptake mechanisms to achieve reliable delivery to those immune cells responsible for the induction of the body's immune system.	Complete recruitment for Phase 2B. Updates from expanded 'compassionate use' programme. Dosing of last enrolments in 1Q 2016. Final Phase 2B report in early 2016. Partnering with major Pharma.	General pharmaceutical and medical device operating risks: long lead times and uncertainty of result outcomes; complex government health regulations; intense competition; loss of key personnel; potential product liability; additional capital requirements.
Mayne Pharma	Specialty pharmaceutical company that develops and manufactures proprietary and generic products. In November 2012 it acquired Metrics, a US-based provider of contract development services to the pharma industry which also develops and manufactures niche generic products.	The combined group has a significant product portfolio and pipeline, global reach through distribution partners in Australia, US, Europe and Asia and manufacturing facilities located in South Australia and North Carolina (US). Pipeline of 24 products under development post Metrics acquisition.	The Company has a 30-year track record of innovation with its intellectual property portfolio built around the optimisation and delivery of oral dosage form drugs.	Transitioning Doryx in-house. Sustained benefit of lower AUD/USD. Further progress with SUBACAP. News flow from generic pipeline of 26 products (16 filed with FDA). FDA approval of a generic version of Tikosyn with 180-day exclusivity.	Movements in AUD/USD; General pharmaceutical operating risks: long lead times and uncertainty of result outcomes; complex government health regulations; intense competition; loss of key personnel; potential product liability.
<b>Health Care Equipment &amp; Services</b>					
Analytica	Developer and marketer of medical devices. Its lead product, PeriCoach, commenced a controlled market release in June 2014 and provides a mobile health solution for the 1 in 3 women globally who suffer Stress Urinary Incontinence (SUI). ALT is also commercialising its AutoStart Infusion System which is an FDA-approved burette with improved safety and cost reduction features.	PeriCoach is the only mobile health incontinence treatment system that enables clinicians to remotely monitor, manage and motivate their patients. It is effectively a personal trainer for pelvic floor exercises which provides real-time feedback during exercises and enables progress to be monitored by both the user and her clinician.	The unique force sensor arrangement is covered by patents in key global markets Australia, the US, China, Brazil, Japan, India and Europe. Design Registration and Trademarks have also been obtained in the same jurisdictions. ALT has also spent c\$3m on R&D and clinical trials to establish its proprietary database and App.	Early Indications of sales growth. PeriCoach launch in US. PeriCoach market penetration. Delivering earnings growth. Potential takeover target.	Loss of key personnel and management. Delay of FDA approval. Operational issues when manufacturing and delivering commercial PeriCoach quantities.
Capitol Health	Through organic growth and acquisitions, CAJ has become Victoria's largest community-based diagnostic imaging provider with 52 clinics. The Company recently expanded into the significant NSW imaging market through the acquisition of Southern Radiology Group. CAJ's clinics offer a full range of procedures including X-Ray, Ultrasound, CT and MRI.	The Company was focused on providing diagnostic imaging services in Victoria predominantly under a Bulk Billing model. In December 2014, it acquired Southern Radiology Group, a specialist diagnostic imaging company with 14 clinics throughout the Sydney metropolitan area providing private community and hospital-based services.		Defensive revenue base with consistently strong profitability. Margin upside potential from increasing fee-paying services above rebate levels. Highly-scalable & low cost model. Supportive regulatory environment including expanded MRI incentives.	General health care operating risks: complex government health regulations; intense competition; loss of key personnel; potential liability; integrating acquisitions into existing business; additional capital requirements.

Source: Patersons Securities, Company Reports



**1300 582 256**  
**patersons@psl.com.au**  
**www.psl.com.au**

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### Research

Rob Brierley - Head of Research	Phone: (+61 8) 9263 1611	Email: rbrierley@psl.com.au
Suzanna Salter - Team Secretary & Desktop Publisher	Phone: (+61 8) 9263 1607	Email: ssalter@psl.com.au
Jon Scholtz - Associate Analyst	Phone: (+61 8) 9225 2836	Email: jscholtz@psl.com.au
Melanie Voong - Research Assistant	Phone: (+61 3) 9242 4138	Email: mvoong@psl.com.au

### Strategy & Economics

Tony Farnham - Economist	Phone: (+61 2) 9258 8973	Email: tfarnham@psl.com.au
Andrew Quin - Research Strategy Coordinator	Phone: (+61 8) 9263 1152	Email: aquin@psl.com.au
Kien Trinh - Senior Quantitative Analyst	Phone: (+61 3) 9242 4027	Email: ktrinh@psl.com.au

### Metals, Mining & Energy

Jason Chesters - Analyst	Phone: (+61 8) 9263 1144	Email: jchesters@psl.com.au
Simon Tonkin - Senior Analyst	Phone: (+61 8) 9225 2816	Email: stonkin@psl.com.au
Matthew Trivett - Analyst	Phone: (+61 7) 3737 8053	Email: mtrivett@psl.com.au

### Industrials

Martyn Jacobs - Analyst	Phone: (+61 3) 9242 4172	Email: mjacobs@psl.com.au
Ben Kakoschke - Analyst	Phone: (+61 3) 9242 4181	Email: bkakoschke@psl.com.au
Conor O'Prey - Analyst	Phone: (+61 2) 8238 6214	Email: coprey@psl.com.au
Ben Rowe - Analyst	Phone: (+61 8) 9263 1616	Email: browe@psl.com.au

### Institutional Dealing

Dan Bahen	Phone: (+61 8) 9263 1274	Email: dbahen@psl.com.au
Michael Brindal	Phone: (+61 8) 9263 1186	Email: mbrindal@psl.com.au
Artie Damaa	Phone: (+61 2) 8238 6215	Email: adamaa@psl.com.au
Paul Doherty	Phone: (+61 3) 8803 0108	Email: pdoherty@psl.com.au
Trent Foxe	Phone: (+61 2) 8238 6265	Email: tfoxe@psl.com.au
Peter Graham	Phone: (+61 3) 9242 4129	Email: pgraham@psl.com.au
Chris Kelly	Phone: (+61 3) 9242 4078	Email: ckelly@psl.com.au
Jeremy Nugara	Phone: (+61 3) 8803 0166	Email: jnugara@psl.com.au
Phil Schofield	Phone: (+61 2) 8238 6223	Email: pschofield@psl.com.au
Josh Welch	Phone: (+61 8) 9263 1668	Email: jwelch@psl.com.au
Sandy Wylie	Phone: (+61 8) 9263 1232	Email: swylie@psl.com.au

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