AUSTRALIAN RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Proteomics International Laboratories Ltd (ASX: PIQ)

Initiating Coverage

April 2017

INDEPENDENT INVESTMENT RESEARCH

WHO IS IIR?

Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

IIR was established in 2004 under Aegis Equities Research Group of companies to provide investment research to a select group of retail and wholesale clients. Since March 2010, IIR (the Aegis Equities business was sold to Morningstar) has operated independently from Aegis by former Aegis senior executives/shareholders to provide clients with unparalleled research that covers listed and unlisted managed investments, listed companies, structured products, and IPOs.

IIR takes great pride in the quality and independence of our analysis, underpinned by high caliber staff and a transparent, proven and rigorous research methodology.

INDEPENDENCE OF RESEARCH ANALYSTS

Research analysts are not directly supervised by personnel from other areas of the Firm whose interests or functions may conflict with those of the research analysts. The evaluation and appraisal of research analysts for purposes of career advancement, remuneration and promotion is structured so that non-research personnel do not exert inappropriate influence over analysts.

Supervision and reporting lines: Analysts who publish research reports are supervised by, and report to, Research Management. Research analysts do not report to, and are not supervised by, any sales personnel nor do they have dealings with Sales personnel

Evaluation and remuneration: The remuneration of research analysts is determined on the basis of a number of factors, including quality, accuracy and value of research, productivity, experience, individual reputation, and evaluations by investor clients.

INDEPENDENCE – ACTIVITIES OF ANALYSTS

IIR restricts research analysts from performing roles that could prejudice, or appear to prejudice, the independence of their research.

Pitches: Research analysts are not permitted to participate in sales pitches for corporate mandates on behalf of a Broker and are not permitted to prepare or review materials for those pitches. Pitch materials by investor clients may not contain the promise of research coverage by IIR.

No promotion of issuers' transactions: Research analysts may not be involved in promotional or marketing activities of an issuer of a relevant investment that would reasonably be construed as representing the issuer. For this reason, analysts are not permitted to attend "road show" presentations by issuers that are corporate clients of the Firm relating to offerings of securities or any other investment banking transaction from that our clients may undertake from time to time. Analysts may, however, observe road shows remotely, without asking questions, by video link or telephone in order to help ensure that they have access to the same information as their investor clients.

Widely-attended conferences: Analysts are permitted to attend and speak at widely-attended conferences at which our firm has been invited to present our views. These widely-attended conferences may include investor presentations by corporate clients of the Firm.

Other permitted activities: Analysts may be consulted by Firm sales personnel on matters such as market and industry trends, conditions and developments and the structuring, pricing and expected market reception of securities offerings or other market operations. Analysts may also carry out preliminary due diligence and vetting of issuers that may be prospective research clients of ours.

INDUCEMENTS AND INAPPROPRIATE INFLUENCES

IIR prohibits research analysts from soliciting or receiving any inducement in respect of their publication of research and restricts certain communications between research analysts and personnel from other business areas within the Firm including management, which might be perceived to result in inappropriate influence on analysts' views.

Remuneration and other benefits: IIR procedures prohibit analysts from accepting any remuneration or other benefit from an issuer or any other party in respect of the publication of research and from offering or accepting any inducement (including the selective disclosure by an issuer of material information not generally available) for the publication of favourable research. These restrictions do not preclude the acceptance of reasonable hospitality in accordance with the Firm's general policies on entertainment, gifts and corporate hospitality.

DISCLAIMER

THIS IS A COMMISSIONED RESEARCH REPORT.

The research process includes the following protocols to ensure independence is maintained at all times:

1) The research process has complete editorial independence from the company and this included in the contract with the company;
2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;
3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.
5) All research mandates are settled upfront so as to remove any influence on ultimate report conclusion;
6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

For more information regarding our services please refer to our website www.independentresearch.com.au.

Contents

Proteomics International Laboratories Ltd (ASX: PIQ)

Investment Profile	
Share price ($) as at 6 April 2017	0.22
Valuation ($ per share)	0.60
Issued capital:	
Ordinary shares (M)*	59.0
Performance Shares (M)	17.5
Options (M)	17.2
Fully Diluted (M)	93.7
Market capitalisation ($M)	13.0
12-month Low/high ($)	0.16/0.30

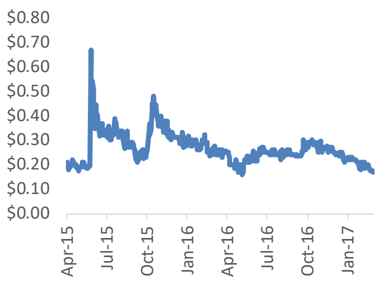
*Incudes shares in escrow.

Board and Management

Terry Sweet: Non-Executive Chairman
Dr. Richard Lipscombe: Managing Director
Dr. John Dunlop: Non-Executive Director
Roger Moore: Non-Executive Director

Major Shareholders	%
Richard Lipscombe	27.6%
Xylo Pty Ltd	10.6%
John Dunlop	6.5%
HSBC Custody Nominees (Australia) Ltd	3.1%
Randolph Resources Pty Ltd	2.7%

Share Price



STUDYING PROTEINS TO IMPROVE DIAGNOSIS OF DISEASE

PIQ is a biological research and drug discovery company working on the development of simple diagnostic tests for common diseases and the discovery of new therapeutic drugs to treat pain and infection. The company's primary focus is the expansion of its protein analysis services for biosimilars and clinical trials and the commercialisation of PromarkerD, the breakthrough diagnostic test for kidney disease in diabetics.

KEY POINTS

Early Detection of Diabetic Kidney Disease: Using its Promarker technology platform, the company has identified the biomarkers in the blood (biological fingerprints) of kidney disease in diabetics, specifically Type 2 diabetes. Using this information the company has developed PromarkerD, a diagnostic test that accurately predicts whether people with diabetes will develop chronic kidney disease. With diabetes being one of the leading causes of kidney disease and less than 10% of people with kidney disease aware they have the condition, early detection allows the disease to be managed to ensure that the damage to kidney function is significantly reduced or potentially avoided.

Commercialisation of PromarkerD: The company is seeking to commercialise PromarkerD through sourcing partners to distribute the diagnostic test. The company has provided an exclusive licence to Omics Global Solution and its sister company Macrotech Farmaceutica to assemble the test kits and distribute PromarkerD in the Dominican Republic. The ingredients for the diagnostic test kits will be manufactured in Melbourne and assembled in Puerto Rico, a US territory and therefore will fall under the umbrella of the US FDA guidelines providing a pathway into the US market. The NPV of the deal over the first 9 years has been valued at USD$1.5m by the company. The company has also signed an agreement with Newsummit Biopharma, a Chinese pharmaceutical company, to work together to manufacture PromarkerD in China. To receive approval from the Chinese regulator the ingredients must be made and the kits must be assembled in China. While the development and approval process will take some time, the Chinese market is significant with close to 10% of the population (~114m people) diagnosed with diabetes.

Analytical Services Continues to Grow: The Analytical unit is the primary revenue generating division of the company. Revenue was up 34.3% in FY16 and is expected to continue to grow on the back of a growing biosimilars (generic form of protein based treatments) market and the company expanding its services to offer advanced analytical testing services for clinical trials. PIQ will be one of only three companies to provide this specialist testing service in Australia. PIQ has signed a non-exclusive agreement with Linear Clinical Research Ltd to provide testing services for clinical trials at Linear, of which there are currently approximately 30 per year.

First Laboratory to be Granted ISO 17025 Accreditation: The company is headquartered in Perth, where it has a state of the art facility to conduct its research and development activities. The laboratory was the first laboratory in the world to receive ISO 17205 accreditation for protein analysis services and is one of only a small number of laboratories globally that can provide these services, putting it in a unique position to take advantage of the growing biosimilars market.

Investment Case: We have assigned PIQ a valuation of **$0.60**. The valuation reflects a sum of parts based on the NPV of Analytical Services unit, the NPV of the licence agreement for the distribution of PromarkerD in the Dominican Republic, and a risk adjusted value of PromakerD in the US and China. The company is yet to find a partner in the US and China for the distribution of PromarkerD, however the company is currently in discussions with parties and targeting these two regions. The breakthrough diagnostic test has the potential to provide the company with significant upside value if the partners for the distribution of the diagnostic test in significant markets can be found. PromarkerD is the first diagnostic test developed that can predict the prevalence of kidney disease in someone with diabetes. This test has the potential to reduce the occurrence of kidney failure in diabetics and reduce the billions of dollars spent on the treatment of chronic kidney disease worldwide.

SWOT ANALYSIS

STRENGTHS

- The company's facilities were the first worldwide to receive ISO 17025 accreditation for protein analysis services and has access to state of the art equipment.
- The company is one of only a few companies worldwide that can provide the specialised analytical services on protein based treatments, providing the company with a regular and growing stream of income from these services. This revenue stream will reduce any further capital raising requirements for the commercialisation of PromarkerD.
- The market for biosimilars is significant with the patent on a number of biologics maturing between 2015 and 2020. This includes 8 of the top 10 selling biologics in major European markets and the USA and close to 50 biosimilars currently being developed. This will support a growing revenue stream for the Analytical unit.
- The company has patents granted in five countries, including the larger markets of the US, China and Russia and a further six patents pending in other regions for the IP regarding the PromarkerD diagnostic test, securing the exclusive rights to the IP until 20 September 2031 in those countries in which the patents have been granted.
- Executives have a substantial shareholding in the company which aligns the interest with shareholders. Executives have also participated to the full extent possible in share offerings since listing.
- The company has developed the first diagnostic test that can predict with accuracy whether a person suffering from Type 2 diabetes will develop kidney disease.

WEAKNESSES

- The share price will likely be adversely impacted in the event the 29.3m shares held in escrow are released in April 2017. We note the Directors that hold 23m of the escrowed shares and have requested a 12-month extension of the escrow period from the ASIC.
- The company is yet to find partners for the distribution of PromarkerD in a number of regions for which it holds patents. The company has stated that it is currently in negotiations with a number of potential partners, however the timing of securing a partner is unknown. The number of regions in which partners are secured will determine the value of PromarkerD.

OPPORTUNITIES

- The company has a significant opportunity to enter into licencing arrangements for the distribution of PromarkerD diagnostic tests throughout a number of jurisdictions, with the company securing patents for the test in some of the largest markets for diabetes, including China and the US.
- With its Promarker technology platform, the company has an opportunity to discover biomarkers for a number of diseases for which they will then be able to create diagnostic tests. The development of new diagnostic tests will continue to add value to the company.
- While it's not a focus of the company at present, there is potential growth prospects that can be developed from the Therapeutics unit.

THREATS

- The future earnings of the Diagnostics unit are dependent on the ability of the company to source partners who can successfully develop and bring the diagnostic tests to market. In the event, the company is unable to achieve this, the future earnings will be adversely impacted.
- The earnings potential of PromarkerD is significant, however the extent of which will be dependent on the level of penetration of the test in any given jurisdiction. The greater the level of penetration the greater the earnings potential. This will be dependent on the partner with which the company enters into an agreement and the cost compared to other diagnostic tests.
- Other companies may develop alternative diagnostic tests that compete with the PromarkerD diagnostic test. This would impact the market potential of the test. We note that PromarkerD is currently the most advanced test in the market.

COMPANY OVERVIEW

- PIQ is a biological research and drug discovery company providing proteomic services and working on the development of simple diagnostic tests for common diseases and the discovery of new therapeutic drugs to treat pain and infection.
- PIQ listed on the ASX in April 2015 after raising $3.1m through the issue of 18.1m shares at $0.20 per share.
- The company was founded in 2001 by Dr. Richard Lipscombe and Dr. Bill Parker.
- PIQ focuses on proteomics, which is the large scale mapping of the structure and function of proteins. Understanding of proteomics can assist with improving the diagnosis of diseases and the identifications of drugs that can be used to treat diseases.
- The company has three divisions through which it applies its technology platform and creates IP: (1) Analytical unit; (2) Diagnostics unit; and (c) Therapeutics unit. While there is commonality through each unit given the technology platform used, each unit has its own revenue generating potential.
- PIQ is headquartered at the Henry Perkins Institute in Perth, Western Australia. It's laboratories were the first facility worldwide to gain ISO 17025 accreditation for proteomics services. This accreditation is the most widely used standard for US Federal testing laboratories and recognises the company's ability to consistently achieve technically valid results.
- The company has state of the art equipment at its facilities in Perth, including mass spectrometers. These instruments allows the research team to identify compounds (proteins) quickly and with high levels of sensitivity and accuracy. Further to this, the company has agreement with Curtin University and Murdoch University to access equipment when additional capacity is required.
- In addition to the headquarters in Western Australia, the company has two representatives in USA and India and agents/distributors throughout Asia.
- The company will not be seeking to develop the diagnostic tools and drugs that it identifies from its research, but plans to licence the intellectual property discovered to major pharmaceutical groups who have the resources to undertake the required development and trials. In return for the intellectual property rights, the company will receive compensation in the form of upfront payments and royalties.
- The company has been awarded several government grants over the years. These grants have enabled the company to initiate or outsource a number of research projects, which may mature into intellectual property.

FINANCIAL POSITION

- The company generated $816,845 in revenue from services provided by the Analytical unit in FY16, this is a 34.3% increase on the pcp. Further to this, the company reported other income of $45,955 and a R&D tax incentive of $572,269 reporting total revenue of $1.4m in FY16. Revenue generated is not sufficient to cover the company's operating expenses and research and development activities at this stage, however the company is expected to reach a break even point in FY18 as a result of continued revenue improvement from the Analytical unit.
- In the 1H'FY17, the company raised $2m. $1.44m was raised through a placement of 6m ordinary shares at $0.24 per share. For every four shares subscribed to in the placement, investors received one listed option. 1.5m options were issued exercisable at $0.20 per option and an expiry date of 31 March 2018. In addition to the placement, the company raised $574,500 through a Share Purchase Plan (SPP), which resulted in the issue of 2.39m new shares. The funds will be used for working capital, to accelerate commercialisation of the PromarkerD diagnostic test and increase the capacity of the laboratory for the new analytical testing services.
- The capital raising boosted the cash reserves to be $2.4m at 31 December 2016. In 1H'17, revenue from the Analytical unit continued to improve, which was the primary contributor to the revenue improvement, which was up 61.2% on the pcp to $542,924.
- The continued improvement in revenue from the Analytical unit will be important to reduce the capital raising requirements of the business while the PromarkerD diagnostic test is deployed to the market.

BUSINESS DIVISIONS

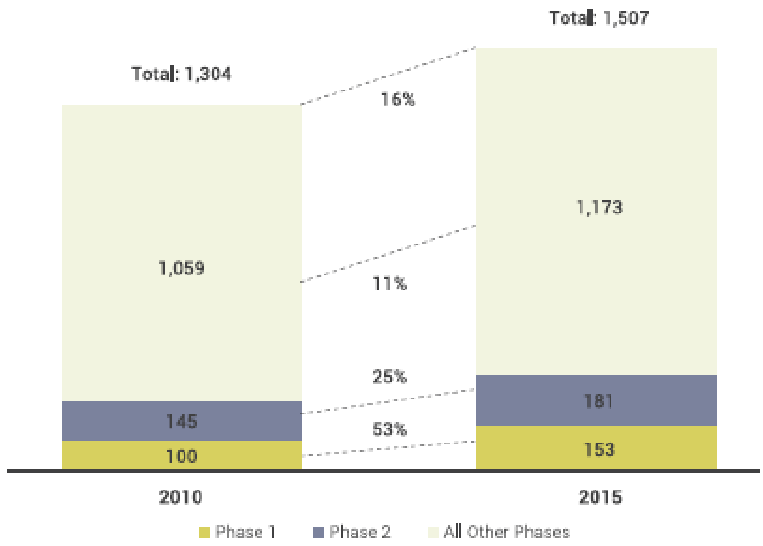
1) ANALYTICAL UNIT

- The Analytical unit offers specialist protein analysis services to a range of pharmaceutical, biotechnology and academic clients around the world on a fee-for-service basis.
- The primary business of the unit is quality control testing for companies looking to develop biosimilars. Biosimilars are the generic version of an approved biologic (protein based treatment). Unlike the generic version of drugs in which the active ingredient is identical to the approved product, biosimilars are highly similar in terms of quality, safety and efficacy to an approved drug. Biosimilars are not required to be identical because of the highly complex nature of biologics.
- As mentioned above, the company's laboratory was the first laboratory in the world to receive ISO 17025 accreditation for proteomics services and the company is well renowned for the quality of its work. The company is one of only a few laboratories worldwide that has the accreditation to provide protein based drug analysis.
- As detailed below, the biosimilars market is significant with a number of biologics coming off patent between 2015 and 2020, which has resulted in a number of biosimilars being developed.
- In February 2014, the company entered into a co-marketing agreement with inVentiv Health, a global supplier of drug development services. Under the agreement, PIQ provide product quality control analysis, while inVentiv Health will provide clinical, commercial and consulting expertise for biosimilar and biologic treatments. The agreement is for a term of five years.
- The Analytical unit is the primary revenue generating division of the company, with revenue increasing 34.3% in 2016 to $816,845. This trend has continued in 1H'17, with revenue from the division up 41%, suggesting another strong year of sales growth will be realised in FY17. The recent partnership entered into with Linear Clinical Research Ltd, (detailed below) is expected to significantly improve revenue for this division.

Partnership with Linear Clinical Research Ltd

- In November 2016, the company announced it had entered into a partnership with Linear Clinical Research Ltd (Linear) to provide advanced analytical services for clinical trials performed at Linear. The companies have entered into a MOU and are expected to finalise the agreement in the 2H'FY17.
- PIQ will use their Promarker technology to test the patient response to drugs during clinical trials. PIQ will be analysing blood samples taken from patients to determine how long a drug stays in a patients system. The service will allow drug developers to bring drugs to market more efficiently.
- Linear is a wholly-owned, not-for-profit, subsidiary of the Harry Perkins Institute of Medical Research. Linear was founded in 2010 to bring new therapies to Western Australia, with Linear completing 145+ clinical trials to date.
- A research report released by Frost & Sullivan in September 2016, highlighted that Australia is a popular destination for clinical trials as a result of its superior clinical research and healthcare infrastructure, world class research capabilities and highly skilled research personnel. Cost and regulatory speed and flexibility are also contributing to Australia being a preferred destination to conduct clinical trials and has resulted in an increasing number of trials being conducted in Australia as highlighted in the below graphic.

Number of Clinical Trials Commenced in Australia



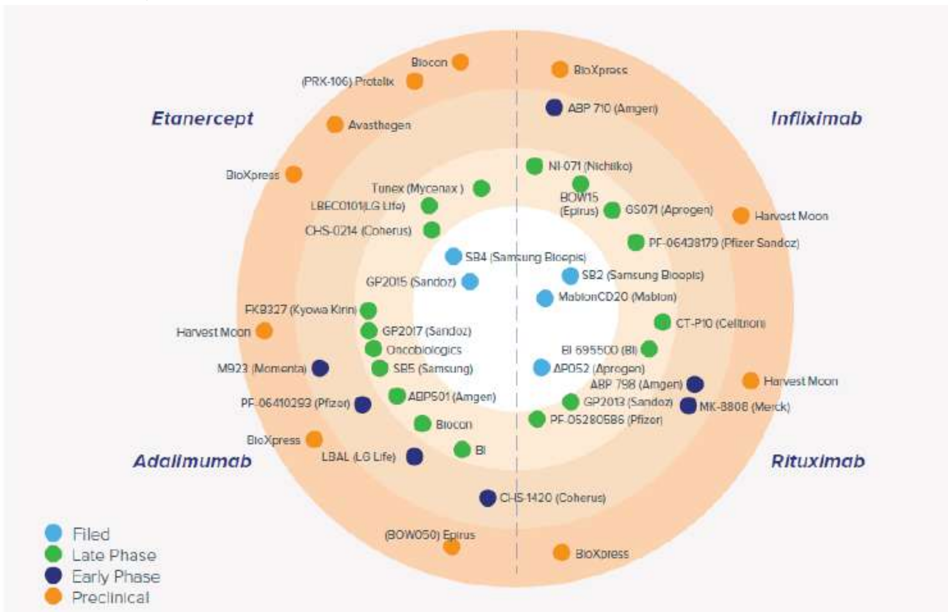
Source: Frost & Sullivan

- Linear conducts research on around 30 drug and medical therapies a year. The increasing number of clinical trials being conducted in Australia will result in the continued stream of projects for Linear.

Biologics & Biosimilars Market

- Biologics currently account for approximately 20% of the pharmaceuticals market. The biologics market was worth US$46bn in 2012 and is expected to grow to in excess of US$390bn by 2020, growing to 28% of the total pharmaceuticals market.
- According to a report published by the IMS Institute in March 2016, there are close to 50 distinct biosimilars in development. The below graphic shows the biosimilars that are being developed as at December-end 2015.
- We note, PIQ is typically engaged during the pre-phase 1 stage of development, however can remain engaged throughout the process for batch testing.

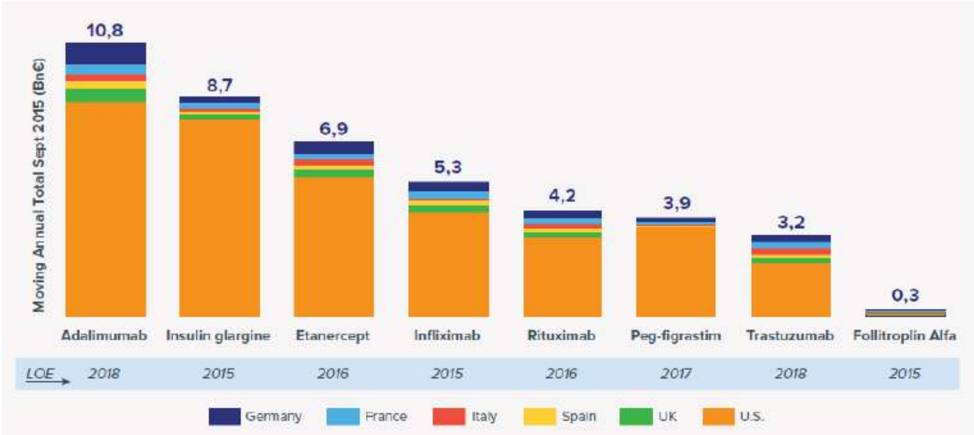
Biosimilars in the Pipeline (December-end 2015)



Source: IMS Institute

- 8 of the top 10 selling biologic treatments are coming off patent between 2015 and 2020 with the sales of these 8 biologics across major European markets and USA was EUR42.3bn.

Europe (Germany, Italy, France, Spain, UK) & US Sales of Biologics Scheduled to Lose Patent Protection



Source: IMS Institute

2) DIAGNOSTICS UNIT

- Through its Promarker platform technology, the company is able to determine the biomarkers of a disease to assist with the development of diagnostic tests. The company is able to do this by comparing blood samples of healthy and sick people. Biomarkers are a biological set of fingerprints that can be used to predict whether a person is at risk of developing a particular disease.
- The company has successfully achieved the identification of biomarkers with respect to kidney disease in people with Type 2 diabetes. With this information the company has developed a diagnostic test, PromarkerD, that accurately predicts whether a diabetic is at risk of developing kidney disease. This can be determined through a simple blood test.
- The company is also researching a number of other molecules in an attempt to develop diagnostic tests for other diseases such as Alzheimers, however at this stage we focus on PromarkerD given the advanced nature of its development.
- There are currently two standard diagnostic tests for kidney disease in diabetics, a urine test and a blood test, however the accuracy of these tests are poor and neither test can predict if the patient will develop kidney disease in the future, which is what the PromarkerD test does.
- The company has conducted two clinical studies, a development study and validation study, both of which were run over a four year period. Over 1,000 patients were followed across the two studies.
- The studies analysed the effectiveness of PromarkerD against three areas of kidney function decline: (1) New onset in patients that were free from kidney disease at the beginning of the study; (2) a decline of more than 30% in kidney function; and (3) a 5ml decline in filtration. Approximately 10% of the patient group across the two studies developed a clinically significant decline in kidney function over the four year period.
- PromarkerD was able to correctly predict 95% of diabetics who went on to develop chronic kidney disease over the four year period.

Commercialisation Progress of PromarkerD

- The company is seeking to commercialise PromarkerD through sourcing partners to distribute the diagnostic test. The company is currently in discussions with a number of diagnostic and pharmaceutical companies across multiple regions.
- The two agreements entered into, detailed below, involve the production and licensing of an IVD (In Vitro Diagnostic) test kit. There are potentially other routes to market, including a LDT (Laboratory Developed Test), however there has been some concern with this path to market by the FDA in recent times.

- In August 2016, the company signed its first licencing deal for PromarkerD. The company has provided an exclusive licence to Omics Global Solution and its sister company Macrotech Farmaceutica to distribute PromarkerD in the Dominican Republic. The ingredients for the diagnostic test kits will be made in Melbourne and then exported to Puerto Rico where the kits will be assembled. Puerto Rico is a US territory and therefore will fall under the umbrella of the US FDA guidelines providing a pathway into the US market. The NPV of the deal over the first 9 years has been valued at USD$1.5m (AUD$1.9m) by the company and the test is expected to commence distribution in 2018.
- In 2015, the company signed an agreement with Newsummit Biopharma, a Chinese pharmaceutical company, to work together to manufacture the PromarkerD test kit in China. In order to receive regulatory approval in China, the ingredients must be made and assembled in China. As such, PIQ is working with Newsummit Biopharma to achieve this. While the development and approval process will take some time, the Chinese market is significant with close to 10% of the population (~114m people) diagnosed with diabetes. The Chinese government has identified diabetes as a significant issue that needs addressing, therefore if the required approvals are granted to PromarkerD we would expect the diagnostic test to be able to achieve high levels of penetration.

Diabetes & Kidney Disease

- Diabetes is a chronic disease, the prevalence of which is increasing, particularly Type 2 diabetes. The World Health Organisation (WHO) estimated 422m adults had diabetes in 2014, a significant increase to the 108m in 1980.
- Diabetes is among the leading causes of kidney disease. The longer a person has diabetes the more likely they are to develop kidney disease. About 10% of people with diabetes develop early signs of kidney disease in the first 10 years post diagnosis. Up to 30% of people with diabetes will develop kidney disease 20 years after diagnosis.
- According to Kidney Health Australia, less than 10% of people with chronic kidney disease are aware they have the condition. If kidney disease is detected early and managed appropriately, the deterioration in kidney function can be significantly reduced or possibly reversed.
- In 2015, USA had the largest percentage of the population with diabetes, followed by Singapore and Brazil. Despite the USA having the largest percentage of the population with diabetes, China has the largest number of people with diabetes. We have tabled below the percentage of population suffering from diabetes for each country in which the company has a patent granted or pending for PromarkerD.

Diabetic Suffers 2015

Country	Percentage of Population
Australia	5.1%
USA	10.8%
China	9.8%
Singapore	10.5%
Russia	9.2%
Europe	6.4%
Brazil	10.4%
Canada	7.4%
India	9.3%
Japan	5.7%
Indonesia	6.5%

Source: World Bank

3) THERAPEUTICS UNIT

- The Therapeutics unit seeks to develop new painkillers and antibiotics using venom from Australia's wildlife.
- The company screens for potential drug compounds in venom collected from insects in the Northern Territory and synthesises promising compound for testing. The company seeks to pre-screen 50-100 venoms a year. From this they will select the most promising molecules for pre-clinical development.
- With the market estimated to be worth ~$17bn, the ability to develop and identify new drugs offers significant growth potential in the future. While this is the case, we note the areas of focus for the company at present are the Analytical unit and the commercialisation of PromarkerD.

INTELLECTUAL PROPERTY

- The company has a number of patents granted and pending in a number of jurisdictions for the biomarkers identified with pre-diabetes, diabetes and diabetes related conditions.
- Securing patents is a significant milestone for the company and provides a significant boost to the commercialisation prospects of PromarkerD.

Patents

Country	Status	Filing Date	Expiry Date
Australia	Granted	20 September 2011	20 September 2031
USA	Granted	20 September 2011	20 September 2031
China	Granted	20 September 2011	20 September 2031
Singapore	Granted	20 September 2011	20 September 2031
Russia	Granted	20 September 2011	20 September 2031
Europe	Pending	20 September 2011	20 September 2021
Brazil	Pending	20 September 2011	20 September 2031
Canada	Pending	20 September 2011	20 September 2031
India	Pending	20 September 2011	20 September 2031
Japan	Pending	20 September 2011	20 September 2031
Indonesia	Pending	20 September 2011	20 September 2031

VALUATION & INVESTMENT CASE

- We assign PIQ a value of **$0.60** per share. The valuation represents a sum of parts value based on the NPV of the Analytical unit, the value of the licence deal for the distribution of PromarkerD in Dominican Republic and the risk-adjusted value of a licencing agreement for the distribution of PromarkerD in the US and China.
- The valuation is based on the total number of shares on issue, including the shares currently held in escrow. Given the focus of the company is on the Analytical and Diagnostics unit we have not assigned a value to the Therapeutics unit.
- The value of the analytical unit is based on the DCF of the unit over the next five years. We expect revenue to grow strongly over the period on the back of the growing biosimilars market and the new revenue stream from the clinical trial analytical services. The company has provided for additional capacity to undertake analysis for up to four trials per month.
- The commercialisation of PromarkerD provides a significant amount of potential value for the company. To highlight the potential value of PromarkerD we have made some assumptions regarding the sales of PormarkerD in the event the company was to secure a partner in both the US and China for the distribution of PromarkerD. We have selected these two regions, given these are regions currently being targeted by the company. We note, the more regions the company can distribute PromarkerD, the greater the value potential.

- Given the company is yet to secure a partner in these two regions for the distribution of PromarkerD we have applied a risk weighting of 80% to the NPV.

Valuation	
Business Unit	**Value per Share**
Analysis Unit	$0.23
PromarkerD in Dominican Republic	$0.03
PromarkerD in US	$0.15
PromarkerD in China	$0.19
Total	**$0.60**

- The below table highlights the key assumptions used to value PromarkerD in the US and China over a 10-year period. As mentioned above, we have applied a risk weighting of 80% to the outcome given the company is yet to secure a distribution partner in these two regions.
- The cost per test is based on figures provided by the company and the actual cost of the test received will impact the royalty revenue stream.
- One of the key variables is the penetration rate of the test. We have assumed a 10% penetration rate for both regions. This is a very conservative assumption and we expect the penetration rates would be much higher. We have provided a sensitivity analysis below to highlight the impact of the penetration rate on the value.

PromarkerD Valuation Assumptions		
	US	**China**
Number of People with Diabetes	36m	114m
Cost per Test	US$50	US$20
Number of tests per year	1	1
Upfront Payment	US$2m	US$3m
Penetration Rate of 10%	3.6m	11.4m
Royalty	5%	5%
AUD/USD	0.76	0.76
WACC	20%	20%
Risk Weighting	80%	80%

- The below shows the impact that a change in just the penetration rate assumption can have on our valuation. A small increase or decrease in the penetration rate assumption has a significant impact on the potential value of PromarkerD.

Sensitivity Analysis		
Business Unit	**Value per Share**	**% Change**
Penetration Rate of 5%	$0.44	-26.7%
Penetration Rate of 10% (base case)	$0.60	0.0%
Penetration Rate of 20%	$0.92	53.3%

CAPITAL STRUCTURE

- PIQ has 59m fully paid ordinary shares on issue, 14.1m listed options and 3.1m unlisted options. All options have an exercise price of $0.20 and an can be exercised on or before 31 March 2018.
- 29.3m of the ordinary shares are currently held in escrow and are due to be released from escrow in April 2017. The Directors who own 23m of the shares in escrow have requested a 12-month extension to the escrow period.

Securities on Issue		
Security	**Number on Issue**	**Details**
Ordinary fully paid shares	29.7m	na
Ordinary fully paid restricted shares	29.3m	Released from escrow 16 April 2017
Listed Options	14.1m	Exercise price of $0.20 on or before 31 March 2018
Unlisted options	3.1m	Exercise price of $0.20 on or before 31 March 2018
Performance Rights	17.5m	175 performance rights on issue that represent 100,000 shares each.
Fully Diluted	**93.7m**	

- The top five shareholders own the large majority of shares on issue. The largest shareholder is the Managing Director, Richard Lipscombe. Directors own 23m shares on issue, including restricted shares.

Top Five Shareholders		
Shareholder	**Number of Shares (M)***	**Percentage of Shares on Issue (%)**
Richard Lipscombe	16.3	27.6%
Xylo Pty Ltd	6.3	10.6%
John Dunlop	3.9	6.5%
HSBC Custody Nominees (Australia) Ltd	1.8	3.1%
Randolph Resources Pty Ltd	1.6	2.7%
Total	**29.9**	**50.5%**

*Includes restricted shares.

RISKS

Commercialisation Risk: The company is relying on its ability to partner with companies that have the ability to develop ad commercialise its services. Failure to commercialise services will have an adverse impact on the company's financial position.

Market Risk for Diagnostic Tests: There is no guarantee of the use of the diagnostic tests developed by the company in the event licensing agreements are entered into. The level of penetration (use) in a given market will impact the earnings potential of the product. The level of penetration will be dependent to some extent on the partner and the cost compared to other diagnostic tests.

Regulatory Risk: Changes to legislation or the introduction of new legislation in jurisdictions the company is seeking to enter, may adversely impact the operations of the company.

Foreign Exchange Risk: Given the company will be distributing its products in different countries, earnings are subject to movements in foreign exchange. Movements in foreign exchange may either positively or negatively impact earnings in AUD.

BOARD AND MANAGEMENT

Terry Sweet - Non-Executive Chairman: Mr. Sweet has over 30 years experience in both executive and non-executive roles. Mr. Sweet was previously the Managing Director of XRF Scientific Ltd and has been a director on the boards of Western Biotechnology Ltd,Heartlink Ltd and Scientific Services Ltd.

Dr. Richard Lipscombe - Managing Director: Dr. Lipscombe co-founded PIQ in 2001 after managing the Protein Analysis Facility at the University of Western Australia. Dr. Lipscombe is a business manager and a protein chemist expert in analysing bio-molecules. Dr. Lipscombe has extensive experience in chemistry, immunology, mass spectrometry, peptide synthesis,high performance computing and robotics. Dr. Lipscombe has over 30 years experience in science and business in Australia and abroad, working in hospitals and academic laboratories and commercial organisations.

Dr. John Dunlop - Non-Executive Director: Dr. Dunlop has been involved with the company since its establishment in 2001 and has been a director and founder of several ASX-listed companies across a number of industries. Dr. Dunlop was a founding director of the Western Biotechnology Ltd, a beta-carotene producer and was a director of Black Mountain Gold NL, Menzies Court Ltd and Sheen Anaytical Services Ltd.

Roger Moore - Non-Executive Director: Mr. Moore has over 40 years experience in the international pharmaceutical industry, including 30 years as President of Novo Nordisk Japan, the worlds largest manufacturer of insulin and leader in diabetes care. Since retiring in 2007, Mr. Moore has split his time between Australia and Japan working to assist Australian biotech companies and Japanese pharmaceutical companies in business development activities.

DISCLAIMER

(a) Disclaimer

The information, reports, financial models, forecasts, strategies, audio broadcasts and other media (referred to as "Content" throughout this Legal Notice), provided on this web site has been prepared and issued by Altavista Research Pty Ltd trading as Independent Investment Research "IIR", Independent Investment Research Holdings Pty Ltd (ACN 155 226 074), as authorised to publish research under an Australian Financial Securities Licence (AFSL No 420170) which allows Independent Investment Research to offer financial service advice to retail and wholesale clients. Users of this web site should not act on any Content without first seeking professional advice. Whilst the Content contained on this web site has been prepared with all reasonable care from sources which we believe are reliable, no responsibility or liability is accepted by Independent Investment Research, for any errors or omissions or misstatements however caused. Any opinions, forecasts or recommendations reflect our judgement and assumptions at the date of publication or broadcast and may change without notice. Content on this web site is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. We are not aware that any user intends to rely on the Content provided or of the manner in which a user intends to use it. In preparing our Content it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual user.

Access by any user to this website does not create a client relationship between Independent Investment Research and the user. Users seeking to invest must obtain individual financial advice to determine whether recommendations are appropriate to their investment objectives, personal financial situation or particular needs, before acting on any recommendations. Any Content is not for public circulation or reproduction, whether in whole or in part and is not to be disclosed to any person other than the intended user, without the prior written consent of Independent Investment Research.

(b) Disclosure of Interest

General

Independent Investment Research, its officers, employees, consultants and its related bodies corporate have not and will not receive, whether directly or indirectly: any commission; fee; benefit; or advantage, whether pecuniary or otherwise, in connection with making any recommendation contained on this web site. Independent Investment Research, discloses that from time to time, it or its officers, employees and its related bodies corporate: may have an interest in the securities, directly or indirectly, which are the subject of these recommendations; may buy or sell securities in the companies mentioned in the Content; may effect transactions which may not be consistent with the recommendations in the Content; may have directorships in the companies mentioned in the Content; and/or perform paid services for the companies that are the subject of such recommendations.

However, under no circumstances, has Independent Investment Research been influenced, either directly or indirectly, in making any recommendations contained on this web site.

Corporate Research

Independent Investment Research has or may have, received a fee either directly by a company itself or by a third party, to provide coverage and/or corporate research (the "Fee"). Where a Fee has been received, Independent Investment Research does not publish:

Buy / Hold / Sell recommendations for the security or managed investment schemes.

(c) Copyright Protection

All Content at this web site is protected by copyright. Apart from any use permitted under the Copyright Act (Cth) 1968, you must not copy, frame, modify, transmit or distribute the material at this web site, without seeking the prior written consent of the copyright owner. Content on this web site is owned by the business Independent Investment Research. Users are prohibited from copying, distributing, transmitting, displaying, publishing, selling, licensing, creating derivative works or using any content on the web site for commercial or public purposes

(d) Trade Marks

The trade marks and logos displayed on this web site belong to Independent Investment Research or other parties. Such trade marks include registered trade marks and trade marks pending registration. Users are prohibited from using any of these trade marks, without seeking the prior written consent of IIR or such third party, which may own the trade mark content on this web site.

(e) Limitation of Liability

To the fullest extent permitted by the law, Independent Investment Research and any of its officers, employees, agents, consultants or related bodies corporate disclaim any liability, whether based in contract, tort, strict liability or otherwise, for any direct, indirect, incidental, consequential or special damages arising out of or in any way connected with the use of any Content made available on this web site by any person or entity.

(f) No Warranties

Independent Investment Research does not make any claims, promises, guarantees, representations or warranties regarding the accuracy, completeness or fitness for purpose of the Content made available on this web site. All information on this web site is provided to you on an as is basis, without warranty of any kind either express or implied. To the extent that research can be provided by third parties, Independent Investment Research makes no warranty or representation as to the accuracy or completeness of such information displayed on this site, and accepts no liability for errors or omissions arising from such third party information. To the fullest extent permitted by law, under no circumstances will Independent Investment Research be liable for any loss or damage caused by users reliance upon information obtained through this web site. It is the responsibility of the user to evaluate the accuracy, completeness or usefulness of any information, opinion, general advice or other content made available through this web site. Furthermore, Independent Investment Research does not warrant or represent that this web site is error free or free from viruses or defects. A user must do all that is necessary (including using virus checking software) to satisfy itself that accessing this website will not adversely affect its system.

For further information, please contact IIR at: client.services@independentresearch.com.au

Independent Investment Research (Aust.) Pty Limited

SYDNEY OFFICE
Level 1, 350 George Street
Sydney NSW 2000
Phone: +61 2 8001 6693
Main Fax: +61 2 8072 2170
ABN 11 152 172 079

MELBOURNE OFFICE
Level 7, 20–22 Albert Road
South Melbourne VIC 3205
Phone: +61 3 8678 1766
Main Fax: +61 3 8678 1826

DENVER OFFICE
355 S Teller Street
Suite 200
Lakewood 80226
Denver Colorado USA
Phone: +1 161 412 444 724

MAILING ADDRESS
PO Box H297 Australia Square
NSW 1215