

Proteomics Int. Laboratories Ltd

(PIQ \$1.03) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Seth Lizee	19 th July 2021	\$1.75/sh ▲ from \$1.50/sh

Janssen Stage 2 Study Success

Event

PIQ has released the Janssen Stage 2 study abstract to be presented at the 2021 Australasian Diabetes Congress.

Impact

- The study was a success, showing canagliflozin significantly lowered PromarkerD risk scores in patients with type 2 diabetes;
- This is a further validation of PromarkerD's solid clinical utility and represents an additional de-risking event for the company;
- We view these results as material as they could lay the foundation for PromarkerD's use as a complementary diagnostic test (CDx). This having commercial implications we detail below.

Action

Speculative Buy with an upgraded \$1.75/sh Price Target

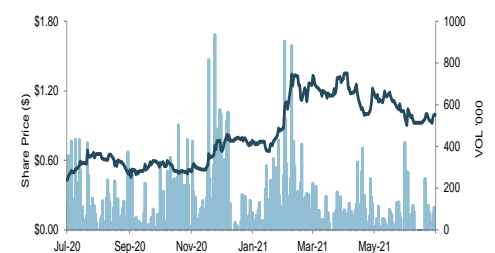
Key Catalysts

- First Sales
- Further Licensing Deals
- US Reimbursement Code
- Regulatory Updates (FDA)
- Endometriosis Update
- New Analytical Services Contracts

Proteomics Int. Labs. Ltd	Year End 30 June	
Share Price	\$1.03	A\$/sh
Price Target	1.75	A\$/sh
Valuation (DCF)	1.75	A\$/sh
WACC	16%	
Terminal Growth	3%	
Shares on issue	105	m
Market Capitalisation	108.1	A\$m
Enterprise Value	100.6	A\$m
Cash (Pro-forma)	7.5	A\$m
Debt (inc. AASB16)	0.1	A\$m

Key Financials	2020a	2021f	2022f
Revenue (A\$m)	3.0	2.9	4.7
EBITDA (A\$m)	-1.4	-2.0	-1.0
EBIT (A\$m)	-1.7	-2.4	-1.3
Reported NPAT (A\$m)	-1.8	-2.4	-1.4
Normalised NPAT (A\$m)	-2.2	-2.4	-1.4
Gross Cashflow (A\$m)	-1.2	-2.1	-1.1
Capex (A\$m)	-1.4	-0.3	-0.3
Op. Free Cashflow (A\$m)	-1.8	-2.3	-1.4
Revenue Growth (%)	11%	-2%	60%
EBITDA Growth (%)	-17%	47%	-52%
Norm. NPAT Growth (%)	14%	10%	-44%
Normalised EPS (Ac)	-2.26	-2.21	-1.25
Norm. EPS growth (%)	0.00	-0.02	-0.44
PER (x)	-45.5	-46.6	-82.7
EV:EBITDA (x)	-73.0	-49.8	-102.8
EV:EBIT (x)	-57.8	-42.0	-75.0
Net Debt (A\$m)	-2.2	-6.0	-4.5
Net Debt:Equity (%)	-50%	-74%	-68%
Interest Cover (x)	na	na	na

Share Price Chart



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Euroz Hartleys declares that it has acted as underwriter to and/or arranged an equity issue in and/or provided corporate advice to PIQ during the last year. Euroz Hartleys has received a fee for these services.

This analyst declares that he has a beneficial interest in PIQ.

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Analysis

Janssen Stage 2 Study

- The study successfully showed canagliflozin significantly lowered PromarkerD risk scores in patients with type 2 diabetes
- The post-hoc study examined the association between canagliflozin and change in PromarkerD score over a three-year period in type 2 diabetes patients
 - Canagliflozin, owned by Janssen, was the first diabetes medicines with an indication to slow progression of diabetic nephropathy (DKD) in type 2 diabetes patients. The drug is sold under the brand name Invokana®
- The study measured PromarkerD scores at baseline and year 3 in 2,008 patients from the CANagliflozin cardioVascular Assessment Study (CANVAS)
 - Participants at baseline had a eGFR ≥ 60 mL/min/1.73m², mean age of 62yrs, 69% male, and a median diabetes duration of 12 yrs.
- PromarkerD scores were stratified into low-, moderate-, and high-risk; generalised estimating equations were used to assess the effect of canagliflozin against placebo on PromarkerD scores
 - The baseline participant low/moderate/high split was 67/14/19%
 - Participants had a mean baseline PromarkerD score of 10.1%
- The study showed there was significant treatment by time interaction ($P < 0.001$), showing patients on canagliflozin had a decreased mean PromarkerD scores from week 6 to year 3 (Δ score: -1.0% [95% CI: -1.9%, -0.1%]; $p = 0.038$)
- Whereas, patients on the placebo showed an increase over the three year period (Δ score: 3.9% [2.5%, 5.3%]; $p < 0.001$)
- This separation is even more significant when stratified by PromarkerD scores, the study noting high risk patients had a significantly lower score at Yr3 (Δ score: -5.6% [-8.6%, -2.6%]; $p < 0.001$) with the opposite seen in patients on the placebo who's scores remained high (Δ score: 3.2% [-1.3%, 7.7%]; $p = 0.17$) (Time*TRT $p = 0.002$).
- These results portray one of the two possible successful outcomes we previously outlined in research
- The study results are material in our opinion as we believe it could lay the foundation for PromarkerD's use as a Complementary Diagnostic test (CDx), whereby it would be used:
 - Prior to prescription of drug (gliflozins) treatments for DKD; and/or
 - Throughout a patients course of treatment (potentially lifetime) to monitor the ongoing risk of developing DKD
- We further note the materiality of Janssen, a joint partner who will be jointly presenting with PIQ. Janssen are a division of Johnson & Johnson, the US\$460bn listed (JNJ:NYSE) multinational pharmaceutical company with +US\$82bn in sales last year

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Catalyst

- We continue to see a number of upcoming catalyst for PIQ, we highlight the table below:

Key Catalyst	CY'2021		CY'2022			
	Sep'Q	Dec'Q	Mar'Q	Jun'Q	Sep'Q	Dec'Q
PromarkerD						
Further Licensing Deals						
First Sales						
US Reimbursement Code						
Regulatory Updates (FDA)						
Promarker™						
Endometriosis Update						
Giardia Update						
Analytical Services						
New contracts						

Source: EHSL Estimates

- We note there are additional catalyst around conference presentations, clinical utility study results, and overall pipeline program updates
- We anticipate PIQ will trade up upon successfully achieving these catalyst, potentially substantially with some

Valuation and Price Target

As a result of the Janssen Stage 2 Study Success, in our view a major catalyst with de-risking implications, we have upgraded our Valuation and Price Target to \$1.75/sh. This Price Target per our analysis requires PIQ achieving the level of commercial adoption outlined in our previous research. The factors and risks surrounding these assumptions further drive our Speculative Buy recommendation.

Valuation Summary		
DCF EV	A\$m	175.9
(+) Cash (1H'21)	A\$m	7.5
(-) Debt (1H'21)	A\$m	-0.1
Equity Value	A\$m	183.3
(/) SOI	m	104.9
Valuation per Share	A\$/sh	1.75
Price Target	A\$/sh	1.75

Source: EHSL Estimates

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Financial Statements	2019A	2020A	2021F	2022F	Performance Ratios	2019A	2020A	2021F	2022F
Income Statement					Growth & Margins				
PromarkerD Royalties	0.0	0.0	0.3	2.0	Revenue Growth	na	11%	-2%	60%
Analysis Business	1.5	1.4	1.6	1.7	EBITDA Growth	na	-17%	47%	-52%
Other Income	1.2	1.6	1.1	1.0	EBIT Growth	na	-16%	37%	-44%
Total Sales	2.7	3.0	2.9	4.7	Normalized Net Profit Growth	na	14%	10%	-44%
(-) COGS	0.0	0.0	-0.1	-0.4	EBITDA margin	-62%	-46%	-69%	-21%
Gross Profit	2.7	3.0	2.9	4.3	EBIT margin	-69%	-58%	-82%	-29%
(-) OPEX	-4.3	-4.4	-4.9	-5.3	Normalized net profit margin	-71%	-73%	-82%	-29%
EBITDA	-1.7	-1.4	-2.0	-1.0	Effective tax rate	0%	0%	0%	0%
(-) D&A	-0.2	-0.4	-0.4	-0.4	Liquidity				
EBIT	-1.9	-1.7	-2.4	-1.3	Capex/depreciation	0.2	3.8	0.7	0.7
(-) Net Finance	0.0	0.0	0.0	0.0	Current ratio	5.9	6.6	11.5	8.7
(-) Other Expenses	-0.2	0.0	0.0	0.0	Quick ratio	6.6	6.1	12.7	9.0
EBT	-2.1	-1.8	-2.4	-1.4	Receivable days	68.1	44.4	44.4	44.4
(-) Tax	0.0	0.0	0.0	0.0	Payable days	25.4	37.4	37.4	37.4
Reported NPAT	-2.1	-1.8	-2.4	-1.4	Risk Measures				
(+/-) Abnormals	0.2	-0.4	0.0	0.0	Dividend Cover	na	na	na	na
Norm NPAT	-1.9	-2.2	-2.4	-1.4	Payout ratio	0%	0%	0%	0%
Cash flow (A\$m)					Net interest cover	na	na	na	na
Profit Before Tax	-2.1	-1.8	-2.4	-1.4	Net debt/equity	-45%	-50%	-74%	-68%
(+) D&A	0.2	0.4	0.4	0.4	Returns				
(+) FX loss/(gain)	0.0	0.0	0.0	0.0	ROIC	-59%	-39%	-30%	-20%
(+) Share base payments	0.3	0.1	0.0	0.0	ROA	-53%	-39%	-26%	-17%
(-) Tax Paid	0.0	0.0	0.0	0.0	ROE	-64%	-49%	-30%	-20%
(+/-) Other	0.0	0.0	-0.1	-0.1	Share Data/Valuation				
Gross Cashflow	-1.6	-1.2	-2.1	-1.1	Share Data				
(-) Capital Expenditure	0.0	-1.4	-0.3	-0.3	Issued shares	80.7	92.4	104.9	104.9
(-) Change in NWC	0.0	0.8	0.1	-0.1	Weighted ave shares	80.4	86.5	98.7	104.9
Operating Free Cashflow	-1.7	-1.8	-2.3	-1.4	Fully diluted shares	84.7	96.4	108.9	108.5
(-) acq of subs/other Invst.	0.0	0.0	0.0	0.0	Basic EPS	-2.6	-1.9	-2.3	-1.3
(+) Proc. from disp of FA/subs	0.9	0.0	0.0	0.0	YoY change	na	-0.3	0.2	-0.4
(-) Dividends Paid	0.0	0.0	0.0	0.0	Fully diluted EPS	-2.5	-1.8	-2.2	-1.2
(+) Equity issued	0.1	3.3	6.0	0.0	YoY change	na	-0.3	0.2	-0.4
(+/-) Other	0.0	-0.4	0.0	0.0	Fully diluted normalised EPS	-2.3	-2.3	-2.2	-1.2
Net Cashflow	-0.7	1.0	3.7	-1.4	YoY change	na	0%	-2%	-44%
BoP Net Cash	2.0	1.3	2.2	6.0	Dividend/share	0.0	0.0	0.0	0.0
(+/-) Net Cashflow	-0.7	1.0	3.7	-1.4	Franking	na	na	na	na
(+/-) AASB16	0.0	-0.1	0.0	0.0	Gross cashflow/share	-2.0	-1.3	-2.0	-1.0
EOp Net Cash	1.3	2.2	6.0	4.5	NBV/share	3.7	4.8	7.7	6.4
Balance Sheet (\$m)					NTA/Share	3.7	4.8	7.7	6.4
Cash	1.5	2.4	6.1	4.6	Valuation				
Receivables	0.5	0.4	0.4	0.6	PER (Basic)	-40.0	-54.3	-44.9	-79.9
Other Assets	1.2	1.4	1.4	1.4	PER (Fully diluted)	-42.0	-56.7	-46.6	-82.7
Total Current Assets	3.2	4.1	7.8	6.6	PER (Fully diluted, normalized)	-45.7	-45.5	-46.6	-82.7
PP&E	0.2	1.3	1.2	1.2	P/CFPS	-51.3	-76.8	-51.5	-102.7
Other Assets	0.2	0.0	0.0	0.0	Price/NBV	27.8	21.4	13.5	16.2
ROUA	0.0	0.1	0.1	0.1	Price/NTA	27.8	21.5	13.5	16.2
Intangible Assets	0.0	0.0	0.0	0.0	Dividend Yield	0.0	0.0	0.0	0.0
Total Non-current Assets	0.4	1.4	1.4	1.3	EV/EBITDA	-60.6	-73.0	-49.8	-102.8
Total Assets	3.6	5.6	9.2	7.9	EV/EBIT	-54.4	-57.8	-42.0	-75.0
Payables	0.3	0.4	0.5	0.6	EV/Revenue	37.4	33.6	34.4	21.5
Borrowing	0.1	0.0	0.0	0.0	Other Information				
Lease Liabilities	0.0	0.1	0.1	0.1	Estimated free float:				60%
Provisions	0.1	0.1	0.1	0.1	12-mth High/Low (A\$/sh)				0.19/1.48
Total Current Liabilities	0.5	0.6	0.7	0.8	Average daily volume (A\$k)				98.0
Payables	0.0	0.3	0.3	0.3	ASX Code				PIQ
Borrowing	0.0	0.0	0.0	0.0	Next result				Aug-21
Lease Liabilities	0.0	0.1	0.1	0.1	Company Description				
Provisions	0.1	0.1	0.1	0.1	Proteomics International Laboratories Ltd (PIQ) is a Perth based medical technology company. Currently in the process of commercializing its novel diabetic kidney disease test, PromarkerD, the business has an additional pipeline of 10 other diagnostic tests in various stages of development and commercialization, in addition to a growing world class analytical services business				
Total Non-Current Liabilities	0.1	0.5	0.5	0.5					
Total Liabilities	0.6	1.1	1.2	1.2					
Net Assets	3.0	4.4	8.0	6.7					
Issued Capital	10.5	13.4	19.4	19.4					
Reserves	0.7	1.1	1.1	1.1					
Accumulated Losses	-8.3	-10.0	-12.4	-13.8					
Total Equity	3.0	4.4	8.0	6.7					

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