

Proteomics International Laboratories Ltd

(PIQ \$1.11) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Seth Lizee	25 th November 2021	\$1.90/sh ▲ from \$1.75/sh

PromarkerD: UK Distribution Agreement Signed

Event

PIQ has signed a PromarkerD distribution agreement for the UK (England, Scotland, and Wales) with global diagnostics distributor Apacor Ltd.

Impact

- This is the largest PromarkerD deal to date and reaffirms PIQ's strategy of executing licence/distribution agreements
- The new agreement expands PromarkerD's serviceable market to include the UK
- Diabetes and its related complications, including diabetic kidney disease (DKD), pose a growing health crisis in the UK
- There are an estimated 4.8m people currently living with diabetes in the UK (-7% of population), a figure that's expected to grow to 5.3m people by 2025
- In dollar terms, Diabetes and its complications cost the UK National Health Services £10bn (A\$19bn) per year, amounting to 10% of the organisation's budget
- Indicatively, we estimate PromarkerD's total addressable market for the UK to be in the range of A\$50-150m per year in royalties (workings in analysis section)
- We have upgraded our forecasts to include future UK PromarkerD sales
- We anticipate first sales from the UK in FY'23

Action

We maintain our Speculative Buy recommendation with an upgraded \$1.90/sh. Price Target

PIQ trades at a material discount to both our fair valuation and its peer group.

The company is well placed with its lead diagnostic test PromarkerD being technically de-risked, and now in a position to commercialise and in time deliver sales.

A number of major catalyst are to come, upon successful delivery we believe the stock will trade up, perhaps substantially

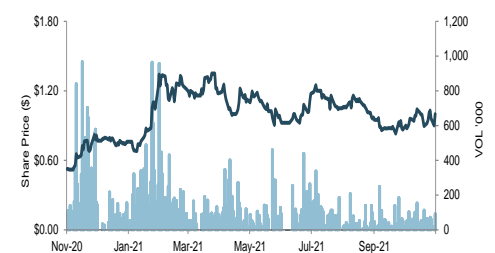
Key Catalysts

- Further Licensing Deals (Inc. the United States)
- First sales
- US reimbursement Coding
- Regulatory Updates (Inc. FDA)
- Endometriosis Update
- Giardia Update
- Overall pipeline program updates
- New analytical services contracts

Proteomics Intl Lab Ltd	Year End 30 June	
Share Price	\$1.11	A\$/sh
Price Target	1.90	A\$/sh
Valuation (DCF)	1.90	A\$/sh
WACC	15%	
Terminal Growth	3%	
Shares on issue	105.2	m
Market Capitalisation	116.8	A\$m
Enterprise Value	110.9	A\$m
Cash (Pro-forma)	5.9	A\$m
Debt (inc. AASB16)	0.1	A\$m

Key Financials	2022f	2023f	2024f
Revenue (A\$m)	3.0	4.9	9.2
EBITDA (A\$m)	-2.5	-1.4	1.6
EBIT (A\$m)	-2.9	-1.8	1.1
Reported NPAT (A\$m)	-2.9	-1.8	1.1
Normalised NPAT (A\$m)	-2.9	-1.8	1.1
Gross Cashflow (A\$m)	-2.6	-1.5	1.5
Capex (A\$m)	-0.3	-0.3	-0.8
Op. Free Cashflow (A\$m)	-2.8	-1.8	0.5
Revenue Growth (%)	1%	62%	88%
EBITDA Growth (%)	2%	-44%	-212%
Norm. NPAT Growth (%)	-11%	-38%	-164%
Normalised EPS (Ac)	-2.65	-1.68	1.08
Norm. EPS growth (%)	-0.11	-0.36	-1.64
PER (x)	-42.0	-65.9	103.2
EV:EBITDA (x)	-44.2	-78.3	69.9
EV:EBIT (x)	-38.6	-62.8	97.5
Net Debt (A\$m)	-3.0	-1.2	-1.6
Net Debt:Equity (%)	-60%	-36%	-37%
Interest Cover (x)	na	na	na

Share Price Chart



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This analyst declares that he has a beneficial interest in Proteomics International Laboratories Ltd.

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Proteomics International Laboratories Ltd

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Analysis

- PIQ has announced it signed a new PromarkerD distribution agreement for the UK (covering England, Scotland, and Wales)
- The agreement was signed with global diagnostics distributor Apacor Ltd
- Apacor have 25yrs of experience in medical and analytical diagnostics, and more importantly have strong relationships with government and professional healthcare bodies across the UK
- We note Apacor have similarly signed agreements with other ASX listed diagnostic companies, including Anteotech Ltd (ASX: ADO)
- The key agreement terms:
 - Two year agreement, extendable by mutual agreement;
 - Exclusive for England, Scotland, and Wales; and
 - Conditional on product registration with the UK's Medicines and Healthcare Products Regulatory Agency (MHRA)
- The company anticipates it will complete the MHRA product registration within the next 2 months
- In parallel, PIQ have stated they are already in contact with key bodies and opinion leaders to promote PromarkerD and bring it into the clinic
- We anticipate first sales in the UK in Q1/2 FY'23, subject to no issues surrounding Apacor's launch strategy

Market Potential:

- Diabetes and its related complications, including diabetic kidney disease (DKD), pose a growing health crisis in the UK
- There are an estimated 4.8m people currently living with diabetes in the UK (~7% of population), a figure that's expected to grow to 5.3m people by 2025
- 40% of diabetics will go onto eventually develop Diabetic Kidney Disease (DKD)
- The magnitude of the financial burden is just as significant, with diabetes and its complications costing the UK National health Services £10bn (A\$19bn, 10% of its total budget) per year, the majority of this spent treating complications – such as DKD
- We can extrapolate the indicative total addressable market for PromarkerD in the UK, assuming:
 - Current 4.8m diabetic population, assuming on average 1 test per person per annum
 - Using indicative US\$150/test price point, a figure we believe is reasonable for a developed nation like the UK; and
 - Sensitising the range of standard industry royalty rates (5-15%)
- The results of this shown below:

Total Addressable Market (TAM) - UK	Units	Royalty Range		
		Low	Mid	High
Diabetic Population	'000s	4,800	4,800	4,800
(x) Indicative Test Price	US\$/test	150	150	150
(x) Royalty Rate	%	5.0%	10.0%	15.0%
Implied Roaylties	US\$m	36	72	108
Implied Roaylties *	A\$m	50	100	150
*0.72 AUD/USD				
**Assumes on avg. 1 test/patient/yr				

Source: EHL assumptions, Company announcements

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- The range of outcomes demonstrates the large market opportunity present
- Achieving even modest market penetration will translate into lucrative commercial outcomes for PIQ
- On this point, we can explore how these outcomes might look under different market penetration scenarios (assuming midpoint royalty rate)
- This is shown below:

PIQ Royalty Sensitivity - UK	Units	Market Penetration				
Diabetic Population	'000s	4,800	4,800	4,800	4,800	4,800
(x) Market Penetration	%	5%	10%	15%	20%	25%
(x) Indicative Test Price	US\$/test	150	150	150	150	150
(x) Royalty (mid-point)	%	10%	10%	10%	10%	10%
= Implied Royalty to PIQ	US\$m	3.6	7.2	10.8	14.4	18.0
= Implied Royalty to PIQ*	A\$m	5.0	10.0	15.0	20.0	25.0
*0.72 AUD/USD						
**Assumes on avg. 1 test/patient/yr						

Source: EHL assumptions, Company announcements

- We remind readers that being royalties they are high margin in nature and fall mostly to the bottom line.

Forecasts

- We have updated our forecasts to include this new agreement
- In building our forecasts we have made the following assumptions for the UK agreement:
 - First sales in FY23
 - US\$150/test pricing
 - Conservative 7.5% royalty rate
 - 10% final market share with a standard adoption curve
- Our updated sales forecast for the following 5 years are shown below:

FY	Units	2022	2023	2024	2025	2026
PromarkerD Forecasts						
Unit Sales	'000s	19	142	435	1,034	2,172
Market Penetration (Forecasted Regions)	%	0.0%	0.2%	0.7%	1.7%	3.5%
Market Penetration (Global)	%	0.0%	0.0%	0.1%	0.2%	0.4%
Group Revenue Forecasts						
PromarkerD Royalties	A\$m	0.3	2.0	6.1	14.6	30.8
Analysis Business	A\$m	1.4	1.6	1.7	1.9	2.1
Other Income	A\$m	1.3	1.3	1.3	1.3	1.3
Total Sales	A\$m	3.0	4.9	9.2	17.8	34.2
% Growth	%	1%	62%	88%	95%	92%

Source: EHL assumptions

- We continue to note that in these early days of commercialisation, forecasts are very fluid, especially during an ongoing pandemic. There is ample room to exceed these figures should PIQ attain greater market share than our very conservative forecasts.
- Additionally, we note these forecasts do not include any potential commercial outcomes from PIQ's Promarker™ pipeline of programs.

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Catalyst

- We continue to see a number of upcoming catalysts for the company in the short to medium term, we outline key catalysts we anticipate over the next CY below:

Key Catalyst	CY'2021	CY'2022				Significance / Impact
	Dec'Q	Mar'Q	Jun'Q	Sep'Q	Dec'Q	
PromarkerD						
Further Licensing Deals						Drive global uptake and future revenues
First Sales						Drive revenue
Regulatory Updates (FDA/Other)						Build user confidence in product and assist in second phase of test rollout / Assist regional roll-out of test
US Reimbursement Code						Secures payer approval and market demand
Promarker™						
Endometriosis Update						New first-in-class diagnostic test/validates pipeline
Giardia Update						Potential proof of concept results
Analytical Services						
New contracts						Off-set cash burn & engage potential future partners

Source: EHL assumptions

- We note there are additional catalysts around overall pipeline program updates, conference presentations, amongst other things
- We anticipate PIQ will trade up upon successfully achieving these catalysts, potentially substantially with some.

Valuation and Price Target

We maintain our Speculative Buy recommendation with an upgraded \$1.90/sh. Price Target

- We have upgraded our Valuation and Price Target to \$1.90/sh. from \$1.75/sh. as a result of upgrading our forecasts
- This Price Target per our analysis requires PIQ achieving the level of commercial adoption we forecast. The factors and risks surrounding these assumptions further drive our Speculative Buy recommendation
- Our valuation summary is shown below:

Valuation Summary		
DCF EV	A\$m	194.2
(+) Net Cash (Pro-forma)	A\$m	5.9
Equity Value	A\$m	200.0
(/) SOI	m	105.2
Valuation per Share	A\$/sh	1.90
Price Target	A\$/sh	1.90

Source: EHL assumptions

- We further make note that our valuation does not include any potential value from any of PIQs Promarker™ pipeline programs. We continue to view these as free options, which could realise value if commercially successful.

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Financial Statements	2021a	2022f	2023f	2024f	Performance Ratios	2021a	2022f	2023f	2024f
Income Statement					Growth & Margins				
PromarkerD Royalties	0.0	0.3	2.0	6.1	Revenue Growth	-1%	1%	62%	88%
Analysis Business	1.3	1.4	1.6	1.7	EBITDA Growth	79%	2%	-44%	-212%
Other Income	1.7	1.3	1.3	1.3	EBIT Growth	63%	1%	-38%	-164%
Total Sales	3.0	3.0	4.9	9.2	Normalized Net Profit Growth	48%	-11%	-38%	-164%
(-) COGS	0.0	-0.1	-0.4	-1.2	EBITDA margin	-83%	-84%	-29%	17%
Gross Profit	3.0	2.9	4.5	7.9	EBIT margin	-96%	-96%	-36%	12%
(-) OPEX	-5.4	-5.5	-5.9	-6.4	Normalized net profit margin	-109%	-96%	-36%	12%
EBITDA	-2.5	-2.5	-1.4	1.6	Effective tax rate	0%	0%	0%	0%
(-) D&A	-0.4	-0.4	-0.4	-0.4	Liquidity				
EBIT	-2.8	-2.9	-1.8	1.1	Capex/depreciation	0.6	0.7	0.7	1.7
(-) Net Finance	0.0	0.0	0.0	0.0	Current ratio	9.4	6.1	3.7	4.1
(-) Other Expenses	0.0	0.0	0.0	0.0	Quick ratio	11.1	6.3	2.8	3.5
EBT	-2.9	-2.9	-1.8	1.1	Receivable days	36.9	36.9	36.9	36.9
(-) Tax	0.0	0.0	0.0	0.0	Payable days	35.8	35.8	35.8	35.8
Reported NPAT	-2.9	-2.9	-1.8	1.1	Risk Measures				
(+/-) Abnormals	-0.4	0.0	0.0	0.0	Dividend Cover	na	na	na	na
Norm NPAT	-3.2	-2.9	-1.8	1.1	Payout ratio	0%	0%	0%	0%
Cash flow (A\$m)					Net interest cover	na	na	na	na
Profit Before Tax	-2.9	-2.9	-1.8	1.1	Net debt/equity	-73%	-60%	-36%	-37%
(+) D&A	0.4	0.4	0.4	0.4	Returns				
(+) FX loss/(gain)	0.0	0.0	0.0	0.0	ROIC	-37%	-57%	-54%	18%
(+) Share base payments	0.3	0.0	0.0	0.0	ROA	-38%	-48%	-42%	21%
(-) Tax Paid	0.0	0.0	0.0	0.0	ROE	-42%	-57%	-54%	26%
(+/-) Other	-0.1	-0.1	-0.1	-0.1	Share Data/Valuation				
Gross Cashflow	-2.2	-2.6	-1.5	1.5	Share Data				
(-) Capital Expenditure	-0.2	-0.3	-0.3	-0.8	Issued shares	105.2	105.2	105.2	105.2
(-) Change in NWC	0.0	0.0	-0.1	-0.3	Weighted ave shares	98.8	105.2	105.2	105.2
Operating Free Cashflow	-2.5	-2.8	-1.8	0.5	Fully diluted shares	109.2	108.8	105.2	105.2
(-) acq of subs/other Invst.	0.0	0.0	0.0	0.0	Basic EPS	-2.7	-2.7	-1.7	1.1
(+) Proc. from disp of FA/subs	0.0	0.0	0.0	0.0	YoY change	0.4	0.0	-0.4	-1.6
(-) Dividends Paid	0.0	0.0	0.0	0.0	Fully diluted EPS	-2.6	-2.6	-1.7	1.1
(+) Equity issued	5.7	0.3	0.0	0.0	YoY change	0.4	0.0	-0.4	-1.6
(+/-) Other	0.1	0.0	0.0	0.0	Fully diluted normalised EPS	-3.0	-2.6	-1.7	1.1
Net Cashflow	3.3	-2.5	-1.8	0.5	YoY change	0.3	-11%	-36%	-164%
BoP Net Cash	2.2	5.5	3.0	1.2	Dividend/share	0.0	0.0	0.0	0.0
(+/-) Net Cashflow	3.3	-2.5	-1.8	0.5	Franking	na	na	na	na
(+/-) AASB16	0.0	0.0	0.0	0.0	Gross cashflow/share	-2.1	-2.5	-1.4	1.4
EOp Net Cash	5.5	3.0	1.2	1.6	NBV/share	7.2	4.7	3.0	4.1
Balance Sheet (\$m)					NTA/Share	7.2	4.8	3.1	4.2
Cash	5.6	3.1	1.2	1.7	Valuation				
Receivables	0.3	0.3	0.5	0.9	PER (Basic)	-40.8	-40.6	-65.9	103.2
Other Assets	1.4	1.4	1.4	1.4	PER (Fully diluted)	-42.4	-42.0	-65.9	103.2
Total Current Assets	7.3	4.8	3.2	4.0	PER (Fully diluted, normalized)	-37.5	-42.0	-65.9	103.2
PP&E	1.2	1.1	1.0	1.4	P/CFPS	-52.5	-45.2	-78.6	77.0
Other Assets	0.0	0.0	0.0	0.0	Price/NBV	15.3	23.5	36.6	27.0
ROUA	0.1	0.1	0.1	0.1	Price/NTA	15.3	23.2	35.8	26.6
Intangible Assets	0.0	0.0	0.0	0.0	Dividend Yield	0.0	0.0	0.0	0.0
Total Non-current Assets	1.3	1.1	1.1	1.5	EV/EBITDA	-44.9	-44.2	-78.3	69.9
Total Assets	8.6	6.0	4.3	5.5	EV/EBIT	-39.0	-38.6	-62.8	97.5
Payables	0.5	0.5	0.6	0.7	EV/Revenue	37.3	37.0	22.8	12.1
Borrowing	0.0	0.0	0.0	0.0	Other Information				
Lease Liabilities	0.1	0.1	0.1	0.1	Estimated free float:				60%
Provisions	0.2	0.2	0.2	0.2	12-mth High/Low (A\$/sh)				0.46/1.48
Total Current Liabilities	0.8	0.8	0.9	1.0	Average daily volume (A\$k)				98.0
Payables	0.1	0.1	0.1	0.1	ASX Code				PIQ
Borrowing	0.0	0.0	0.0	0.0	Next result				Feb-22
Lease Liabilities	0.0	0.0	0.0	0.0	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	0.2	0.2	0.2	0.2					
Total Liabilities	1.0	1.0	1.1	1.2					
Net Assets	7.6	5.0	3.2	4.3					
Issued Capital	19.1	19.4	19.4	19.4					
Reserves	1.2	1.2	1.2	1.2					
Accumulated Losses	-12.7	-15.5	-17.3	-16.2					
Total Equity	7.6	5.0	3.3	4.4					

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Contact Details

Euroz Hartleys Limited +61 8 9488 1400

Research Analysts

Jon Bishop - Head of Research	+61 8 9488 1481
Mike Millikan - Resources Analyst	+61 8 9268 2805
Kyle De Souza - Resources Analyst	+61 8 9488 1427
Michael Scantlebury - Resources Analyst	+61 8 9268 2837
Steven Clark - Resources Analyst	+61 8 9488 1430
Trent Barnett - Senior Analyst	+61 8 9268 3052
Gavin Allen - Senior Analyst	+61 8 9488 1413
Harry Stevenson - Industrials Analyst	+61 8 9488 1429
Seth Lizee - Research Analyst	+61 8 9488 1414

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