

# PIQ: Sonic Healthcare USA License Terminated

PIQ.ASX | PROTEOMICS INTERNATIONAL LABORATORIES LIMITED | HEALTHCARE | BIOTECHNOLOGY

|                            |  |   |
|----------------------------|--|---|
| PRICE<br><b>A\$0.71/sh</b> | TARGET PRICE<br><b>A\$0.73/sh</b><br>(FROM A\$1.10/sh) | RECOMMENDATION<br><b>HOLD</b><br>(FROM SPECULATIVE BUY) |
|----------------------------|--|---|



## Event

PIQ has terminated its exclusive license with Sonic Healthcare USA for its PromarkerD test, a predictive diagnostic tool for diabetic kidney disease. This follows the delay in the USA launch of the test announced in March, earlier this year.

The company had originally entered into a licensing agreement with Sonic Healthcare USA in May 2023 to use and commercialise its PromarkerD test in the USA. However, PIQ today stated that certain required milestones and key performance indicators had not been met, leading the company to issue a notice of termination under the agreement.

PIQ is targeting a USA launch of the test in FY25, only now, it intends to use two go-to-market strategies, including:

- 1) Licensing to alternative pathology laboratories and service providers (with the company noting it is discussions), and
- 2) Pursuing a direct to consumer/ patient pathway.

The company believes it can implement these new strategies, noting it can use a third-party USA CLIA certified reference laboratory where its PromarkerD assay was recently established.

## Impact

Clearly, this is a very disappointing outcome, leaving investors with considerable unknowns on the pathway forward for PromarkerD in the USA.

Our investment case to date has been centred around the commercialisation of PromarkerD in the United States – the world largest healthcare market, with an estimated +32 million patients with diabetes, each a potential user of the test.

While partners are in place (under various arrangements) for several other territories, including Europe, they individually cover smaller markets and are mostly pre-launch.

Similarly, while the company's pipeline is presenting increasing value, with several promising tests nearing commercial readiness (including Promarker Endo and Eso), it remains important to recognise this journey can sometimes take longer than expected.

We have not changed our forecasts at this stage given the various unknowns, however, we will look to further refine them as it becomes appropriate.

## Action

**We downgrade to a Hold Recommendation with an updated \$0.73 Price Target**, given the increased uncertainties around the commercialisation of PromarkerD in the USA following today's update.

## Catalysts

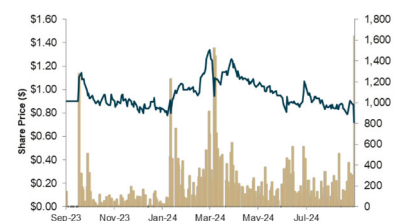
- PromarkerD Licensing Agreements
- PromarkerD First US sales/PromarkerD First EU Sales
- PromarkerEndo & Eso Clinical Validation
- PromarkerEndo & Eso First Sales
- Other Pipeline Updates

## Analyst

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|                       |             |                       |       |
|-----------------------|-------------|-----------------------|-------|
| Share Price           | 0.71        | A\$/sh                |       |
| <b>Price Target</b>   | <b>0.73</b> | <b>A\$/sh</b>         |       |
| Valuation (DCF)       | 0.73        | A\$/sh                |       |
| WACC                  | 15%         |                       |       |
| Terminal Growth       | 3%          |                       |       |
| Shares on issue       | 131.0       | m                     |       |
| Market Capitalisation | 93.0        | A\$m                  |       |
| Enterprise Value      | 84.4        | A\$m                  |       |
| Cash (Inc est R&D)    | 8.6         | A\$m                  |       |
| Debt (inc. AASB16)    | 0.1         | A\$m                  |       |
| <b>Key Metrics</b>    | <b>24F</b>  | <b>25F</b> <b>26F</b> |       |
| Revenue (A\$m)        | 2.7         | 3.2                   | 6.1   |
| EBITDA (A\$m)         | -6.3        | -6.5                  | -5.2  |
| EBIT (A\$m)           | -6.8        | -7.1                  | -5.6  |
| Reported NPAT (A\$m)  | -6.8        | -7.1                  | -5.6  |
| Norm NPAT (A\$m)      | -6.8        | -7.1                  | -5.6  |
| Gross CF (A\$m)       | -6.1        | -6.5                  | -5.2  |
| Capex (A\$m)          | -0.4        | -0.8                  | -0.3  |
| Op. FCF (A\$m)        | -6.1        | -7.6                  | -5.5  |
| Revenue Gwth (%)      | -18%        | 18%                   | 87%   |
| EBITDA Gwth (%)       | 10%         | 4%                    | -21%  |
| Norm NPAT Gwth (%)    | 9%          | 5%                    | -21%  |
| Norm EPS (Ac)         | -5.0        | -5.3                  | -4.2  |
| Norm EPS growth (%)   | na          | na                    | na    |
| PER (x)               | -14.2       | -13.5                 | -17.0 |
| EV:EBITDA (x)         | -13.5       | -12.9                 | -16.4 |
| EV:EBIT (x)           | -12.5       | -11.9                 | -15.0 |

## Performance



Source: IRESS

| Income Statement                     | 24F         | 25F         | 26F         | Performance Ratios              | 24F        | 25F        | 26F        |
|--------------------------------------|-------------|-------------|-------------|---------------------------------|------------|------------|------------|
| PromarkerD Royalties                 | 0.0         | 0.3         | 2.3         | <b>Growth &amp; Margins</b>     |            |            |            |
| PromarkerD consumables               | 0.0         | 0.1         | 0.7         | Revenue Growth                  | -18%       | 18%        | 87%        |
| Analysis Business                    | 0.7         | 0.9         | 1.1         | EBITDA Growth                   | 10%        | 4%         | -21%       |
| Other Income                         | 2.0         | 2.0         | 2.0         | EBIT Growth                     | 9%         | 5%         | -21%       |
| <b>Total Sales</b>                   | <b>2.7</b>  | <b>3.2</b>  | <b>6.1</b>  | Normalized Net Profit Growth    | 9%         | 5%         | -21%       |
| (-) COGS                             | 0.0         | -0.1        | -0.8        | EBITDA margin                   | -230%      | -202%      | -85%       |
| Gross Profit                         | 2.7         | 3.1         | 5.2         | EBIT margin                     | -248%      | -220%      | -93%       |
| (-) OPEX                             | -9.0        | -9.7        | -10.4       | Normalized net profit margin    | -248%      | -220%      | -93%       |
| <b>EBITDA</b>                        | <b>-6.3</b> | <b>-6.5</b> | <b>-5.2</b> | Effective tax rate              | 0%         | 0%         | 0%         |
| (-) D&A                              | -0.5        | -0.6        | -0.5        | <b>Liquidity</b>                |            |            |            |
| EBIT                                 | -6.8        | -7.1        | -5.6        | Capex/depreciation              | 0.8        | 1.3        | 0.5        |
| (-) Net Finance                      | 0.0         | 0.0         | 0.0         | Current ratio                   | 6.3        | 8.7        | 4.2        |
| (-) Other Expenses                   | 0.0         | 0.0         | 0.0         | Quick ratio                     | 5.3        | 8.0        | 3.0        |
| EBT                                  | -6.8        | -7.1        | -5.6        | Receivable days                 | 16.0       | 36.5       | 36.5       |
| (-) Tax                              | 0.0         | 0.0         | 0.0         | Payable days                    | 51.1       | 43.8       | 43.8       |
| Reported NPAT                        | -6.8        | -7.1        | -5.6        | <b>Risk Measures</b>            |            |            |            |
| (+/-) Abnormals                      | 0.0         | 0.0         | 0.0         | Dividend Cover                  | na         | na         | na         |
| Norm NPAT                            | -6.8        | -7.1        | -5.6        | Payout ratio                    | 0%         | 0%         | 0%         |
| <b>Cash Flow Statement</b>           | <b>24F</b>  | <b>25F</b>  | <b>26F</b>  | Net interest cover              | na         | na         | na         |
| <b>Profit Before Tax</b>             | <b>-6.8</b> | <b>-7.1</b> | <b>-5.6</b> | Net debt/equity                 | -77%       | -79%       | -60%       |
| (+) D&A                              | 0.5         | 0.6         | 0.5         | <b>Returns</b>                  |            |            |            |
| (+) FX loss/(gain)                   | 0.0         | 0.0         | 0.0         | ROIC                            | -80%       | -63%       | -99%       |
| (+) Share base payments              | 0.2         | 0.0         | 0.0         | ROA                             | -64%       | -53%       | -72%       |
| (-) Tax Paid                         | 0.0         | 0.0         | 0.0         | ROE                             | -80%       | -63%       | -99%       |
| (+/-)Other                           | 0.0         | 0.0         | 0.0         | <b>Share Data/Valuation</b>     | <b>24F</b> | <b>25F</b> | <b>26F</b> |
| <b>Gross Cashflow</b>                | <b>-6.1</b> | <b>-6.5</b> | <b>-5.2</b> | <b>Share Data</b>               |            |            |            |
| (-) Capital Expenditure              | -0.4        | -0.8        | -0.3        | Issued shares                   | 131.0      | 131.0      | 131.0      |
| (-) Change in NWC                    | 0.3         | -0.3        | -0.1        | Weighted ave shares             | 126.0      | 131.0      | 131.0      |
| <b>Operating Free Cashflow</b>       | <b>-6.1</b> | <b>-7.6</b> | <b>-5.5</b> | Fully diluted shares            | 135.0      | 135.0      | 135.0      |
| (-) acq of subs/other Invst.         | 0.0         | 0.0         | 0.0         | Basic EPS                       | -5.2       | -5.4       | -4.3       |
| (+) Proc. from disp of FA/subs       | 0.0         | 0.0         | 0.0         | YoY change                      | na         | na         | na         |
| (-) Dividends Paid                   | 0.0         | 0.0         | 0.0         | Fully diluted EPS               | -5.0       | -5.3       | -4.2       |
| (+) Equity issued                    | 6.6         | 10.0        | 0.0         | YoY change                      | na         | na         | na         |
| (+/-)Other                           | 0.0         | 0.0         | 0.0         | Fully diluted normalised EPS    | -5.0       | -5.3       | -4.2       |
| <b>Net Cashflow</b>                  | <b>0.5</b>  | <b>2.4</b>  | <b>-5.5</b> | YoY change                      | na         | na         | na         |
| <b>BoP Net Cash</b>                  | <b>6.0</b>  | <b>6.5</b>  | <b>8.9</b>  | Dividend/share                  | 0.0        | 0.0        | 0.0        |
| (+/-) Net Cashflow                   | 0.5         | 2.4         | -5.5        | Franking                        | na         | na         | na         |
| (+/-) AASB16                         | 0.0         | 0.0         | 0.0         | Gross cashflow/share            | -4.6       | -5.0       | -3.9       |
| <b>EoP Net Cash</b>                  | <b>6.5</b>  | <b>8.9</b>  | <b>3.4</b>  | NBV/share                       | 6.5        | 8.7        | 4.4        |
| <b>Balance Sheet</b>                 | <b>24F</b>  | <b>25F</b>  | <b>26F</b>  | NTA/Share                       | 6.4        | 8.7        | 4.3        |
| Cash                                 | 6.6         | 9.0         | 3.5         | <b>Valuation</b>                |            |            |            |
| Receivables                          | 0.1         | 0.3         | 0.6         | PER (Basic)                     | -13.8      | -13.2      | -16.6      |
| Other Assets                         | 2.2         | 2.2         | 2.2         | PER (Fully diluted)             | -14.3      | -13.6      | -17.1      |
| <b>Total Current Assets</b>          | <b>8.9</b>  | <b>11.5</b> | <b>6.2</b>  | PER (Fully diluted, normalized) | -14.3      | -13.6      | -17.1      |
| PP&E                                 | 1.5         | 1.7         | 1.5         | P/CFPS                          | -15.4      | -14.3      | -18.1      |
| Other Assets                         | 0.1         | 0.1         | 0.1         | Price/NBV                       | 11.1       | 8.3        | 16.4       |
| ROUA                                 | 0.1         | 0.1         | 0.1         | Price/NTA                       | 11.1       | 8.3        | 16.5       |
| Intangible Assets                    | 0.0         | 0.0         | 0.0         | Dividend Yield                  | 0.0        | 0.0        | 0.0        |
| <b>Total Non-current Assets</b>      | <b>1.7</b>  | <b>1.8</b>  | <b>1.6</b>  | EV/EBITDA                       | -13.6      | -13.0      | -16.5      |
| <b>Total Assets</b>                  | <b>10.5</b> | <b>13.3</b> | <b>7.9</b>  | EV/EBIT                         | -12.6      | -12.0      | -15.1      |
| Payables                             | 1.3         | 1.2         | 1.3         | EV/Revenue                      | 31.2       | 26.3       | 14.0       |
| Borrowing                            | 0.0         | 0.0         | 0.0         |                                 |            |            |            |
| Lease Liabilities                    | 0.0         | 0.0         | 0.0         |                                 |            |            |            |
| Provisions                           | 0.1         | 0.1         | 0.1         |                                 |            |            |            |
| <b>Total Current Liabilities</b>     | <b>1.4</b>  | <b>1.3</b>  | <b>1.5</b>  |                                 |            |            |            |
| Payables                             | 0.6         | 0.6         | 0.6         |                                 |            |            |            |
| Borrowing                            | 0.0         | 0.0         | 0.0         |                                 |            |            |            |
| Lease Liabilities                    | 0.0         | 0.0         | 0.0         |                                 |            |            |            |
| Provisions                           | 0.0         | 0.0         | 0.0         |                                 |            |            |            |
| <b>Total Non-Current Liabilities</b> | <b>0.6</b>  | <b>0.6</b>  | <b>0.6</b>  |                                 |            |            |            |
| <b>Total Liabilities</b>             | <b>2.1</b>  | <b>2.0</b>  | <b>2.2</b>  |                                 |            |            |            |
| <b>Net Assets</b>                    | <b>8.5</b>  | <b>11.3</b> | <b>5.7</b>  |                                 |            |            |            |
| Issued Capital                       | 37.0        | 47.0        | 47.0        |                                 |            |            |            |
| Reserves                             | 1.8         | 1.8         | 1.8         |                                 |            |            |            |
| Accumulated Losses                   | -30.4       | -37.5       | -43.1       |                                 |            |            |            |
| <b>Total Equity</b>                  | <b>8.4</b>  | <b>11.3</b> | <b>5.7</b>  |                                 |            |            |            |

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## Company disclosures

The companies and securities mentioned in this report, include:

Proteomics International Laboratories Limited (PIQ.ASX) | Price A\$0.71 | Target price A\$0.73 | Recommendation HOLD;

*Price, target price and rating as at 11 September 2024 (\* not covered)*

## Additional disclosures

The analyst declares that they have a beneficial interest in: Proteomics International Laboratories Limited (PIQ.ASX)

Euroz Hartleys declares that it has provided corporate advice during the last year and has received a fee for these services from: Proteomics International Laboratories Limited (PIQ.ASX)

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