

AUSTRALIAN

# RESEARCH

INDEPENDENT INVESTMENT RESEARCH

## SUDA Ltd (SUD)

Update - July 2014

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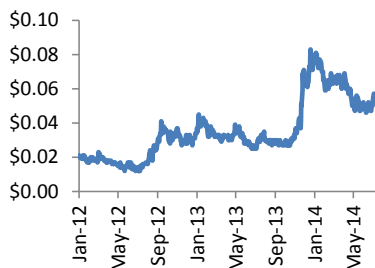
## Investment Profile

|                                     |             |
|-------------------------------------|-------------|
| Share price (\$) as at 29 July 2014 | 0.05        |
| Valuation (\$)                      | 0.17        |
| Issued capital:                     |             |
| Ordinary shares (M)                 | 978.5       |
| Options (M)                         | 26.5        |
| Performance Rights                  | 6.8         |
| Fully Diluted (M)                   | 1,011.8     |
| Market capitalisation (\$M)         | 48.9        |
| 52-week low/high (\$)               | 0.026/0.086 |

## Board and Management

Michael Stewart: Non-Executive Chairman  
 Ken Robson: Non-Executive Director  
 Stephen Carter: Chief Executive Officer  
 Joseph Ohayon: Chief Financial Officer/ Company Secretary/Executive Director  
 Nick Wolf: Chief Business Officer  
 Dr. Carol Worth: Technical Manager

## Share price performance



## LICENSE AGREEMENTS ON TRACK

Since our Initiation of Coverage in February 2014, the company has made a number of advancements in the development of the product portfolio, particularly with respect to ArtiMist™. The below highlights the key events that have occurred since our initiation report.

- ◆ **Interest Grows in ArtiMist™:** After completing the asset packs in March 2014, the company has progressed talks with pharmaceutical companies regarding license agreements for ArtiMist™, an anti-malarial oral spray for children with severe malaria. As expected there has been significant interest and the company appears to be on track to meet it's timeline of having an agreement in place in 2H'CY14. The company has appointed Torreya Partners as the Advisor for the ArtiMist™ license agreement negotiations.
- ◆ **Appointment of Clinical Advisory Board:** The company has appointed a Clinical Advisory Board to provide guidance on the expansion into the pre-referral market for ArtiMist™. The Board comprises four malaria experts - Professor Tim Davis, Professor Ric Price, Professor Kevin March and Dr. Stephen Rulisa. Further trials will be required to test the treatment in a pre-referral setting, however it is expected that the World Health Organisation and a philanthropic organisations will likely assist with the trials.
- ◆ **Oral Sprays for Mainstream Markets:** In addition to securing a license agreement for ArtiMist™, the company is seeking to secure a license agreement with a pharmaceutical company for one of their more advanced mainstream oral sprays. The company has not disclosed which product this is going to be, however we are of the view that it will likely be SUD-001 (oral spray for migraines).
- ◆ **Funding Agreement with Bergen Terminated:** In July 2014, the funding agreement with Bergen Global Opportunity Fund, LLC (Bergen) was terminated. Termination of the agreement was the result of a mutual decision between the two parties. Post the capital raising in November 2013, the company no longer required the funding from Bergen. As part of the termination, Bergen advanced a final tranche of \$100,000 as a prepayment for the purchase of shares.
- ◆ **Westcoast Surgical and Medical Supplies Pty Ltd (Westcoast):** Westcoast continues to generate cashflow, however as stated in the June quarterly report, the Group is still running at an operating loss with the working capital costs greater than the cash inflow from Westcoast. For FY'14, receipts from customers was up 100% on FY'13, largely as a result of the company securing the preferred supplier for International Health and Medical Services (IHMS). The company announced in May, that Westcoast will be expanding its operations to the East Coast, with a warehouse established in Brisbane in the 4Q'FY14. The company estimates that the expansion will add \$3-4 million revenue to the Westcoast business.
- ◆ **Capital Position:** At 30 June 2014, the company had \$4m cash on hand. We note that Regal Funds Management Limited underwrote the 28.2m options that expired on 30 June 2014, securing SUD \$1.4m for working capital. The company is still generating an operating loss, however is seeking to secure a license agreement in the 2H'CY14, which will result in a significant capital injection and then milestone payments beyond this.
- ◆ **Valuation:** Our base case risk-adjusted valuation remains at \$0.17 per share. The expected revenue increase from the expansion of the Westcoast operations, was offset by the increase in the number of shares on issue. We expect the ability of company to secure a license agreement to be a catalyst for the share price.

| PROFIT & LOSS (\$M)      |       |       |       |       |       |
|--------------------------|-------|-------|-------|-------|-------|
| Y/E June                 | 2012A | 2013A | 2014F | 2015F | 2016F |
| Revenue                  | 4.1   | 4.1   | 9.4   | 36.0  | 34.0  |
| Cost of Sales            | -3.4  | -3.3  | -10.7 | -8.6  | -8.8  |
| Employee Benefit Expense | -1.3  | -1.3  | -1.5  | -1.6  | -1.7  |
| Depreciation             | -0.1  | -0.0  | -0.0  | -0.0  | -0.0  |
| Finance Costs            | -0.1  | -0.1  | -0.1  | -0.0  | -0.0  |
| Impairment of PPE        | -2.8  | -     | -     | -     | -     |
| Other                    | -1.2  | -1.3  | -0.5  | -0.5  | -0.5  |
| Loss before tax          | -4.7  | -1.8  | -3.4  | 25.2  | 22.9  |
| Tax                      | 0.3   | 0.2   | -     | -     | 6.9   |
| Profit/Loss after tax    | -4.4  | -1.7  | -3.4  | 25.2  | 29.7  |

| BALANCE SHEET (\$M)         |       |       |       |       |       |
|-----------------------------|-------|-------|-------|-------|-------|
| Y/E June                    | 2012A | 2013A | 2014F | 2015F | 2016F |
| Cash & Equivalents          | 1.6   | 0.8   | 4.0   | 33.9  | 61.5  |
| Trade and other receivables | 0.7   | 0.6   | 0.6   | 0.6   | 0.6   |
| Inventories                 | 0.7   | 0.8   | 0.8   | 0.9   | 0.9   |
| Other                       | 0.1   | 0.2   | -     | -     | -     |
| Current Assets              | 3.1   | 2.4   | 5.5   | 35.4  | 63.0  |
| Property, Plant & Equipment | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   |
| Intangible Assets           | 6.6   | 8.2   | 10.3  | 2.8   | 3.3   |
| Non-current Assets          | 6.7   | 8.3   | 10.4  | 2.9   | 3.4   |
| Total Assets                | 9.8   | 10.7  | 15.9  | 38.3  | 66.4  |
| Trade and other payables    | 2.0   | 2.9   | 2.5   | 8.6   | 8.8   |
| Borrowings                  | 0.7   | 0.6   | -     | -     | -     |
| Current Liabilities         | 2.7   | 3.4   | 2.5   | 8.6   | 8.8   |
| Long-term Borrowings        | -     | 0.6   | 1.9   | 2.5   | 2.5   |
| Total Liabilities           | 2.7   | 4.0   | 4.4   | 11.1  | 11.3  |
| Net Assets                  | 7.0   | 6.7   | 11.5  | 27.2  | 55.1  |
| Contributed Equity          | 38.9  | 40.1  | 48.0  | -     | -     |
| Reserves                    | 1.3   | 0.1   | 0.3   | 38.0  | 36.2  |
| Accumulated Losses          | -33.1 | -33.5 | -36.0 | -10.8 | 18.9  |
| Other                       | -     | -     | -0.8  | -     | -     |
| Total Equity                | 7.0   | 6.7   | 11.5  | 27.2  | 55.1  |

| CASHFLOW (\$M)                                    |       |       |       |       |       |
|---------------------------------------------------|-------|-------|-------|-------|-------|
| Y/E June                                          | 2012A | 2013A | 2014F | 2015F | 2016F |
| Receipts from customers                           | 4.0   | 4.2   | 9.4   | 36.0  | 34.0  |
| Net Interest                                      | 0.0   | -0.0  | -0.1  | -0.0  | -0.0  |
| R&D Concession                                    | -     | 0.3   | -     | -     | -     |
| Payments to suppliers & employees                 | -5.8  | -6.1  | -12.2 | -8.6  | -8.8  |
| Operating Cash Flow                               | -1.8  | -1.6  | -2.9  | 27.4  | 25.1  |
| Proceeds from sale of property, plant & equipment | -     | 0.0   | -     | -     | -     |
| Purchase of property, plant and equipment         | -0.0  | -0.1  | -0.2  | -     | -     |
| Other                                             | -0.0  | -0.8  | -1.5  | -     | -     |
| Loans to related parties                          | 0.0   | -     | -     | -     | -     |
| Investing Cash Flow                               | -0.0  | -0.9  | -1.7  | -     | -     |
| Issue of Shares                                   | 0.2   | 1.0   | 6.4   | -     | -     |
| Borrowings                                        | 0.1   | 1.0   | 1.9   | 2.5   | 2.5   |
| Repayment of borrowings                           | -0.5  | -0.4  | -     | -     | -     |
| Other                                             | -     | 0.1   | -0.4  | -     | -     |
| Financing Cash Flow                               | -0.2  | 1.7   | 7.8   | 2.5   | 2.5   |
| Net Increase/Decrease in Cash                     | -2.0  | -0.9  | 3.2   | 29.9  | 27.6  |
| Cash at beginning of the year                     | 3.6   | 1.6   | 0.8   | 4.0   | 33.9  |
| FX adjustment                                     | -     | 0.0   | 0.0   | -     | -     |
| Cash                                              | 1.6   | 0.8   | 4.0   | 33.9  | 61.5  |

#### Key Assumptions

##### Market Size:

|             |          |
|-------------|----------|
| Malaria     | ~US\$1B  |
| Sumatriptan | US\$3.4B |
| Ondansetron | US\$2.5B |
| Sildenafil  | US\$4B   |

##### Market Penetration:

|           |     |
|-----------|-----|
| ArtiMist™ | 30% |
| SUD-001   | 10% |
| SUD-002   | 10% |
| SUD-003   | 30% |

##### Payment Schedule:

|                 |      |
|-----------------|------|
| Upfront         | 20%  |
| Milestones      | 80%  |
| Royalties       | 10%  |
| WACC            | 15%  |
| AUD/USD         | 0.85 |
| Discount Factor | 50%  |

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