

**Analyst**

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# Cyclopharm (CYC)

## 1H17 Revenues Softer

**Authorisation**

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**Recommendation**

**Buy** (unchanged)

**Price**

**\$0.87**

**Valuation**

**\$1.13** (unchanged)

**GICS Sector**

**Healthcare Equipment and Services**

**Expected Return**

Capital growth	<b>29.9%</b>
Dividend yield	<b>1.1%</b>
Total expected return	<b>31.0%</b>

**Company Data & Ratios**

Enterprise value	<b>\$49.5m</b>
Market cap	<b>\$59.5m</b>
Issued capital	<b>68.6m</b>
Free float	<b>100%</b>
Avg. daily val. (52wk)	<b>\$17,000</b>
12 month price range	<b>\$0.72 - \$1.24</b>

**Price Performance**

	(1m)	(3m)	(12m)
Price (A\$)	0.81	0.85	1.32
Absolute (%)	7.41	2.07	-34.00
Rel market (%)	9.19	3.71	-35.70

**Guidance for underlying growth is maintained**

1H17 revenues of \$6.1m declined by approximately 6% and EBITDA before clinical trial costs declined by 55% to \$0.6m. Revenues from the sale of Patient consumables declined by 10% vs pcp to \$4.89m due mainly to slower revenues in France – the 2nd largest market for Technegas, however revenues in all regions were down in the low to mid single digit range. Revenues from the sale of Technegas generators increased by 19% to \$0.86m. There has been no change to the fundamentals supporting use of Technegas, therefore management attributed the lower revenue in 1H17 to timing of bulk orders. The lower revenue from patient consumables was entirely volume related. Gross profit margin was consistent with results from prior periods at 81%.

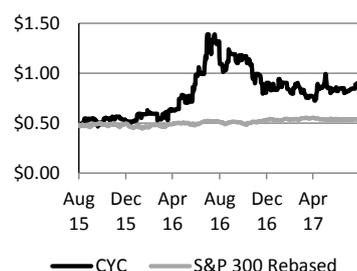
Underlying EBITDA declined by \$0.7m to \$0.6m. Cyclopharm reported a loss at EBIT of \$1.2m which is inclusive of \$1.6m in expenses related to the cost of the pivotal study in the United States. The net cash outflow from operations was \$189K. Cash at the end of the period was \$10.6m. FY17 guidance was affirmed. Excluding the impact of the large China order in FY16, the company expects modest growth in underlying Technegas volumes. This is consistent with our forecast.

The major opportunity for earnings growth in the short term remains the US market. Execution of the clinical trial program is critical and management continue to guide the market to completion of the trial by late calendar 2018. The company expects to lodge interim data on the first 40 patients in 1Q18, however no patients have yet been recruited to the study. Cyclopharm is seeking a structural indication for lung imaging in a non-inferiority protocol including 240 patients from across a number of respiratory disease which include suspected pulmonary embolism, asthma and COPD.

**Maintain Buy Recommendation and Price Target \$1.13**

There are no material changes to earnings forecasts and we maintain our target price of \$1.13 and the Buy recommendation.

**Absolute Price**



SOURCE: IRESS

**Earnings Forecast**

December Year End	FY16	FY17e	FY18e	FY19e
Revenues	14.4	13.7	14.6	16.7
EBITDA \$m	2.0	0.1	-0.5	0.8
NPAT (underlying) \$m	1.1	-0.1	-0.7	0.5
NPAT (reported) \$m	0.8	-0.1	-0.7	0.5
EPS underlying (cps)	1.9	-0.1	-1.0	0.7
EPS growth %	-60%	-105%	904%	-166%
PER (x)	0.4	-8.6	-0.9	1.3
FCF yield (%)	-2%	-1%	-2%	-1%
EV/EBITDA (x)	24.9	582.8	-90.3	61.1
Dividend (cps)	1.0	1.0	1.0	1.0
Franking	0%	0%	0%	0%
Yield %	1.1%	1.1%	1.1%	1.1%
ROE %	15.2%	-0.3%	-4.1%	3.9%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# US Clinical Trial on Track

Revenues in all key markets were slightly lower than the prior year. The company has not lost any significant customers and there has been no alteration to underlying drivers of adoption. The vast majority of customers continue to order in bulk, therefore timing of orders can affect reported revenues as was the case in 1H17. Full year guidance for underlying growth in Technegas volumes has been maintained (excluding revenues for the \$1.3m China order in 2016).

**Figure 1 - Summary of 1H17 earnings**

\$m	1H17	1H16	% change
Patient Administration Sets	4.9	5.5	-10%
Technegas Generator Sales and Service	0.9	0.7	19%
Other revenues	0.3	0.3	10%
<b>Revenue</b>	<b>6.1</b>	<b>6.5</b>	<b>-6%</b>
<b>Growth</b>	<b>-6.1%</b>	<b>27.1%</b>	
Gross profit	4.9	5.3	
GP Margin	81%	82%	
EBITDA (ex Clinical trial expense)	0.6	1.3	-55%
Clinical trial expense	(1.6)	(0.4)	279%
Depreciation and amortisation	(0.1)	(0.1)	184%
EBIT - reported	(1.2)	0.8	-245%
<b>NPAT</b>	<b>(1.4)</b>	<b>0.3</b>	
EPS -reported	(2.47)	0.48	
Interim Dividend (cps)	0.5	0.5	

SOURCE: COMPANY DATA

Following our initial review of the interim FY17 result, there are no changes to earnings and price target. Price target remains \$1.13.

# Cyclopharm

Cyclopharm is a medical device company operating in the specialist field of nuclear medicine. The main revenue driver is Technegas - a system indicated for functional lung imaging. The primary use of Technegas is diagnosis of pulmonary embolism in patients contra indicated for a CT scan.

Pulmonary Embolism can be fatal if left untreated even for short periods. Diagnosis of this condition without medical imaging is difficult and is often required in an emergency situation. Diagnosis of pulmonary embolism and other pulmonary conditions requiring structural analysis of the lungs via Technegas is a safer, more accurate, cost effective solution for thousands of patients around the world each year.

## **BUSINESS MODEL**

The Technegas system has two major components being the Technegas Generator and its consumables. The generators sell for between \$26K - \$50K and the single use consumables sell for between \$70 - \$100 per patient. The consumables generate the majority of revenues.

In Australia, NZ, Canada and Germany the company performs its own distribution direct to hospital customers. In other jurisdictions it uses a distributor model.

End users are generally the Nuclear Medicine departments of large hospitals in each of the 55 countries (excluding the US) around the world where Technegas is approved. The company's head office is in Sydney along with its manufacturing/assembly and R&D facilities. Key risk areas are:

## **CLINICAL TRIAL RISK**

The major risk to our valuation is the fate of the pivotal study being conducted in the US. This study is essential for FDA Approval, notwithstanding the extensive use of Technegas outside of the US. The US market represents approximately 60% of our valuation for Cyclopharm, hence it is important that this trial is a success and that enrolment proceeds in a timely manner.

## **New Technology**

The Technegas system was commercialised almost 30 years ago. It remains relevant today, however, medical imaging technology continues to move quickly and is continually improving.

## **Supply Chain**

Cyclopharm assembles the Technegas generators from components manufactured both in Australia and offshore. Any supply disruption may temporarily constrain or disrupt the company's ability to continue supply.

## **Regulatory Risk**

The regulatory environment surrounding the manufacture and supply of nuclear isotopes for medical use are strict in every country. Handled incorrectly they are potentially dangerous, hence any changes to the regulatory environment surrounding these materials could potentially jeopardise a portion of Cyclopharm's revenue.

## **Patents**

The key patents on the Technegas generator expires in 2026. Cyclopharm may face competition then, or beforehand if the patent is successfully challenged.

Table 1 - Financial summary

Profit & Loss (A\$m)	FY15	FY16	FY17e	FY18e	FY19e
<b>Year Ending June</b>					
<b>US Revenues</b>	-	-	-	-	1.2
<b>ROW Revenues</b>	12.5	14.4	13.7	14.6	15.5
<b>Total Revenues</b>	12.5	14.4	13.7	14.6	16.7
<b>COGS</b>	-2.7	-3.5	-2.7	-2.9	-3.3
<b>Gross profit</b>	9.8	10.9	11.0	11.7	13.3
<b>GP margin</b>	78.6%	75.5%	80.0%	80.0%	80.0%
Operating expenses	6.9	7.8	7.9	8.2	10.5
Clinical trial costs	0.7	1.1	3.0	4.0	2.0
<b>EBITDA</b>	<b>2.3</b>	<b>2.0</b>	<b>0.1</b>	<b>-0.5</b>	<b>0.8</b>
Depreciation and Amortisation	-0.1	-0.1	-0.2	-0.2	-0.2
<b>EBIT</b>	<b>2.1</b>	<b>1.9</b>	<b>-0.1</b>	<b>-0.7</b>	<b>0.7</b>
<b>EBIT margin</b>	<b>17.2%</b>	<b>13.1%</b>	<b>-0.5%</b>	<b>-4.8%</b>	<b>4.3%</b>
Net other income	0.1	0.0	0.0	0.0	0.0
Pre tax profit	2.2	1.9	-0.1	-0.7	0.7
Tax expense	0.7	-0.8	0.0	0.0	-0.2
<b>NPAT- normalised</b>	<b>2.9</b>	<b>1.1</b>	<b>-0.1</b>	<b>-0.7</b>	<b>0.5</b>
Net abnormal items	1.9	(0.3)	-	-	-
<b>Reported NPAT</b>	<b>4.8</b>	<b>0.8</b>	<b>-0.1</b>	<b>-0.7</b>	<b>0.5</b>
<b>Cashflow (A\$m)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17e</b>	<b>FY18e</b>	<b>FY19e</b>
Gross cashflow	1.9	1.3	0.4	-0.7	0.6
Net interest	0.0	0.0	0.0	0.0	0.0
Tax paid	0.1	-0.6	0.0	0.0	-0.2
<b>Operating cash flow</b>	<b>4.2</b>	<b>0.7</b>	<b>0.4</b>	<b>-0.7</b>	<b>0.4</b>
Maintenance capex	0.0	-1.8	-0.2	-0.2	-0.2
Other capitalised intangibles	-0.6	-0.4	-0.4	-0.4	-0.4
<b>Free cash flow</b>	<b>3.5</b>	<b>-1.6</b>	<b>-0.2</b>	<b>-1.3</b>	<b>-0.2</b>
Business acquisitions	0.0	0.0	0.0	0.0	0.0
Proceeds from issuance	0.0	0.0	7.0	0.0	0.0
Movement in debt	0.0	-0.2	0.0	0.0	0.0
Dividends paid	-0.3	-0.6	-0.6	-0.7	-0.7
<b>Change in cash held</b>	<b>3.2</b>	<b>(2.3)</b>	<b>6.2</b>	<b>(2.0)</b>	<b>(0.8)</b>
Cash at beginning of period	0.0	6.4	4.6	10.8	8.8
<b>Cash at year end</b>	<b>6.4</b>	<b>4.6</b>	<b>10.8</b>	<b>8.8</b>	<b>8.0</b>
<b>Balance Sheet (A\$m)</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17e</b>	<b>FY18e</b>	<b>FY19e</b>
Cash	6.4	4.6	10.8	8.8	8.0
Receivables	4.4	3.7	3.6	3.8	4.4
Inventory	2.2	2.6	2.8	2.9	3.0
Other current assets	-	0.1	0.1	0.1	0.1
Property, Plant and Equipment	0.6	2.3	2.4	2.4	2.5
Intangible assets	1.3	1.7	2.1	2.5	2.8
Deferred tax assets	1.5	1.2	1.2	1.2	1.2
<b>Total assets</b>	<b>16.5</b>	<b>16.3</b>	<b>22.9</b>	<b>21.7</b>	<b>22.0</b>
Trade payables	1.8	2.8	3.0	3.2	3.7
<b>Debt</b>	<b>0.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Tax payable	0.5	-	-	-	0.0
Other liabilities	-	0.2	0.2	0.2	0.2
Deferred income tax liability	-	-	-	-	-
Provisions	1.0	1.0	1.0	1.1	1.1
<b>Total Liabilities</b>	<b>3.4</b>	<b>3.9</b>	<b>4.3</b>	<b>4.5</b>	<b>5.0</b>
<b>Net Assets</b>	<b>13.1</b>	<b>12.4</b>	<b>18.6</b>	<b>17.2</b>	<b>17.0</b>
Share capital	15.0	15.0	22.0	22.0	22.0
Retained earnings	(2.5)	(2.3)	(3.0)	(4.4)	(4.6)
Reserves	0.7	(0.3)	(0.3)	(0.4)	(0.4)
<b>Shareholders Equity</b>	<b>13.1</b>	<b>12.4</b>	<b>18.7</b>	<b>17.2</b>	<b>17.0</b>

Valuation Ratios (A\$m)	FY15	FY16	FY17e	FY18e	FY19e
Reported EPS (cps)	8.1	1.4	-0.1	-1.0	0.7
Normalised EPS (cps)	4.9	1.9	-0.1	-1.0	0.7
EPS growth (%)	151%	-60%	-105%	904%	-166%
<b>PE(x)</b>	<b>0.0</b>	<b>0.4</b>	<b>-8.6</b>	<b>-0.9</b>	<b>1.3</b>
<b>EV/EBITDA (x)</b>	<b>21.6</b>	<b>24.9</b>	<b>582.8</b>	<b>-90.3</b>	<b>61.1</b>
<b>EV/EBIT (x)</b>	<b>23.1</b>	<b>26.3</b>	<b>-761.0</b>	<b>-70.9</b>	<b>75.0</b>
NTA (cps)	19.8	24.5	30.4	28.2	28.0
P/NTA (x)	0.0	0.0	0.0	0.0	0.0
Book Value (cps)	22.0	20.8	27.4	25.2	24.9
Price/Book (x)	0.0	0.0	0.0	0.0	0.0
DPS (cps)	1.0	1.0	1.0	1.0	1.0
Payout ratio %	20%	52%	0%	0%	0%
Dividend Yield %	1.1%	1.1%	1.1%	1.1%	1.1%
Franking %	-73%	0%	0%	0%	0%
FCF yield %	4%	-2%	-1%	-2%	-1%
Net debt/Equity	0%	0%	0%	0%	0%
Net debt/Assets	0%	0%	0%	0%	0%
Gearing	net cash	net cash	net cash	net cash	net cash
Net debt/EBITDA (x)	n/a	n/a	n/a	n/a	n/a
Interest cover (x)	n/a	n/a	n/a	n/a	n/a

PAS Unit sales	FY15	FY16	FY17e	FY18e	FY19e
Europe	3,820	3,935	4,053	4,174	4,299
Growth	4%	3%	3%	3%	3%
USA	-	-	-	-	40
Growth	0%	0%	0%	0%	0%
<b>Total Patient Admin Sets Sold</b>	<b>3,820</b>	<b>3,935</b>	<b>4,053</b>	<b>4,174</b>	<b>4,339</b>
Average revenue per sale A\$'000	2,656	2,845	3,047	3,264	3,497

SOURCE: BELL POTTER SECURITIES ESTIMATES

**Recommendation structure**

**Buy:** Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

**Hold:** Expect total return between -5% and 15% on a 12 month view

**Sell:** Expect <-5% total return on a 12 month view

*Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.*

*Such investments may carry an exceptionally high level of capital risk and volatility of returns.*

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