

Tissue Therapies

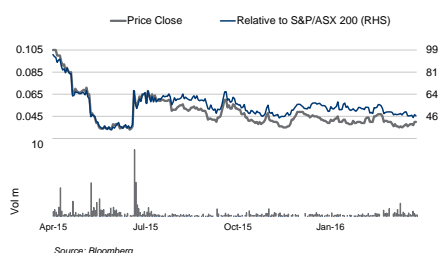
Funding the future

ADD (previously HOLD)

Current price:	A\$0.040
Target price:	A\$0.052
Previous target:	A\$0.053
Up/downside:	30.3%
Reuters:	TIS.AX
Bloomberg:	TIS AU
Market cap:	US\$16.56m
	A\$21.20m
Average daily turnover:	US\$0.01m
	A\$0.01m
Current shares o/s	731.4m
Free float:	100.0%

Key changes in this note

- FY16F revenue no change.
- FY16F EBITDA decreased by 58%.
- FY16F EPS decreased by 10%.



Price performance	1M	3M	12M
Absolute (%)	0	-2.4	-61.9
Relative (%)	-2.1	-10.8	-51.7

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- TIS has been reshaped with changes to the Board and future direction, which should reinvigorate the business. TIS is now trading as Factor Therapeutics.
- The current capital raising will fund a US clinical trial to potentially deliver data which could be attractive to a larger specialty pharmaceutical company.
- We have upgraded our forecasts to include the capital raising.
- Given the fresh approach and recapitalisation of the business, we have upgraded our recommendation to Add.

New strategy to drive interest

TIS is now trading as Factor Therapeutics and has undergone a significant restructuring. Newly appointed executive director Dr Christian Behrenbruch is leading the restructure and a link to a video updating on the company's progress can be viewed here (Password: MorgansLink). Dr Behrenbruch has over 15 years of healthcare executive leadership experience. Previous CEO (and executive director) appointments include Mirada Solutions, CTI Molecular Imaging (now Siemens), Fibron Technologies and ImaginAb, Inc. The company will focus on the community setting for delivery of its product which captures 94% of the addressable market place. About 90% of future investment will focus on the lead program (VF-001) for chronic wounds with the first indication for venous leg ulcers.

Funding for clinical trial

TIS is undertaking a A\$15m placement and rights issue. The placement of A\$9.7m is taking place in two tranches (second tranche subject to shareholder approval on 28 April) and the rights issue of A\$5.3m of 2-for-5 shares at A\$0.035 is fully underwritten and non-renounceable. The funds will be used to execute a Phase II clinical trial in the US, manufacture material for the trials, further develop the core technology for other indications and provide general working capital to meet operating costs over the next two years.

Updated forecasts

TIS posted a 1HFY16 loss of A\$9.6m with an inventory impairment of A\$7.5m the major contributor. We have adjusted our forecasts to reflect the higher level of loss for FY16 and increased spend in FY17 and FY18 as the US clinical trial ramps up. Details of the changes are recorded overleaf.

Investment view upgraded

Given the changes to forecasts and dilution from the capital raise, our DCF valuation has moved slightly to A\$0.052 (from A\$0.053). The key assumptions to our forecast include a licensing transaction in FY19 and product approval in FY20 with an initial market share of 0.5%. The key risk is a delay in starting the US clinical trial. Given the company is now fully funded and appears to have a clear strategy, we have moved our recommendation to Add (from Hold).

Financial Summary	Jun-14A	Jun-15A	Jun-16F	Jun-17F	Jun-18F
Revenue (A\$m)	0.03	0.39	0.05	0.07	0.09
Operating EBITDA (A\$m)	-7.49	-11.33	-13.71	-8.34	-6.37
Net Profit (A\$m)	-6.85	-11.22	-13.62	-8.00	-6.25
Normalised EPS (A\$)	(0.029)	(0.040)	(0.026)	(0.011)	(0.009)
Normalised EPS Growth	(4.7%)	37.0%	(33.7%)	(58.5%)	(21.9%)
FD Normalised P/E (x)	NA	NA	NA	NA	NA
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA	NA
P/FCFE (x)	NA	NA	NA	NA	NA
Net Gearing	(42%)	(42%)	(102%)	(98%)	(12%)
P/BV (x)	0.56	0.85	1.41	4.42	96.00
ROE	(44%)	(74%)	(97%)	(75%)	(181%)
% Change In Normalised EPS Estimates			(9.1%)	27.6%	(35.7%)
Normalised EPS/consensus EPS (x)			1.39	0.58	0.85

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Financial summary

Tissue Therapies						Year end June		Closing price (A\$)		
Income statement (A\$m)	2014A	2015A	2016F	2017F	2018F	0.04	Target price (A\$)	0.05		
Divisional sales	0	0	0	0	0	Valuation metrics		DCF	Valuation	0.05
Total revenue	0	0	0	0	0	DCF valuation inputs				
EBITDA	-7	-11	-14	-8	-6	Rf	5.25%	10-year rate	5.25%	
Associate income	0	0	0	0	0	Rm-Rf	6.50%	Margin	2.0%	
Depreciation	-0	-0	-0	-0	-0	Beta	1.60	Kd	7.25%	
EBITA	-8	-11	-14	-8	-6	CAPM (Rf+Beta*(Rm-Rf))	15.7%	Ke	15.7%	
Amortisation/impairment	0	0	0	0	0	E/EV*Ke+D/EV*Kd*(1-t)		NPV cash flow (A\$m)	9	
EBIT	-8	-11	-14	-8	-6	Equity (E/EV)	100.0%	Minority interest (A\$m)	0	
EBIT(incl associate profit)	-8	-11	-14	-8	-6	Debt (D/EV)	0.0%	Net debt (A\$m)	-6	
Net interest expense	0	0	0	0	0	Interest rate	7.3%	Investments (A\$m)	0	
Pre-tax profit	-7	-11	-14	-8	-6	Tax rate (t)	30.0%	Equity market value (A\$m)	15	
Income tax expense	1	0	-0	0	-0	WACC	15.7%	Diluted no. of shares (m)	283	
After-tax profit	-7	-11	-14	-8	-6	DCF valuation (A\$)				
Minority interests	0	0	0	0	0	0.05				
NPAT (normalised)	-7	-11	-14	-8	-6	Multiples				
Significant items	0	0	0	0	0	2015A	2016F	2017F	2018F	
NPAT (reported)	-7	-11	-14	-8	-6	Enterprise value (A\$m)	15	16	7	15
						EV/Sales (x)	37.3	311.6	95.5	161.1
						EV/EBITDA (x)	(1.3)	(1.2)	(0.8)	(2.4)
						EV/EBIT (x)	(1.3)	(1.2)	(0.8)	(2.4)
						PE (normalised) (x)	(1.0)	(1.5)	(3.7)	(4.7)
						PEG (normalised) (x)	(0.0)	0.0	0.1	0.2
						Price/Book (x)	0.85	1.41	4.42	96.00
						At target price				
						2015A	2016F	2017F	2018F	
						EV/EBITDA (x)	(2.9)	(1.7)	(3.8)	(6.0)
						PE (normalised) (x)	(1.3)	(2.0)	(4.8)	(6.1)
						Comparable data (x)				
						2016F	2017F	2018F		
						IDT Australia	EV/EBITDA	50.2	8.4	4.4
						Y/E June	EV/EBIT	-60.9	12.3	5.4
							PE	-70.5	15.1	10.6
							PEG	1.0	0.0	0.2
						Admedus	EV/EBITDA	6.0	6.1	6.0
						Y/E April	EV/EBIT	7.5	7.7	7.6
							PE	9.2	9.6	9.3
							PEG			
						Per share data				
						2015A	2016F	2017F	2018F	
						No. shares	283	517	731	731
						EPS (normalised) (cps)	-4	-3	-1	-1
						EPS (dil. normalised) (cps)	-4	-3	-1	-1
						Dividend per share (cps)	0	0	0	0
						Franking (%)	0%	0%	0%	0%
						Dividend payout ratio (%)	0.0%	0.0%	0.0%	0.0%
						Dividend yield (%)	0.0%	0.0%	0.0%	0.0%
						Growth ratios				
						2015A	2016F	2017F	2018F	
						Sales growth	1282.8%	-86.8%	35.0%	35.0%
						Operating cost growth	55.8%	17.4%	-38.9%	-23.2%
						EBITDA growth	51.2%	21.0%	-39.2%	-23.6%
						EBITA growth	50.6%	20.2%	-39.2%	-23.6%
						EBIT growth	50.6%	20.2%	-39.2%	-23.6%
						Reported NPAT growth	63.9%	21.3%	-41.3%	-21.9%
						Normalised NPAT growth	63.9%	21.3%	-41.3%	-21.9%
						Reported EPS growth	37.0%	-33.7%	-58.5%	-21.9%
						Normalised EPS growth	37.0%	-33.7%	-58.5%	-21.9%
						Operating performance				
						2015A	2016F	2017F	2018F	
						Asset turnover	0.0%	0.6%	0.1%	0.3%
						EBITDA margin	-2879.1%	-26440.8%	-11912.8%	-6738.0%
						EBIT margin	-2899.5%	-26440.8%	-11912.8%	-6738.0%
						Net profit margin	-2852.9%	-26265.1%	-11423.9%	-6611.8%
						Return on net assets	-85.6%	-93.2%	-126.1%	-2089.2%
						Net debt (A\$m)	-5.6	-15.0	-6.5	0.0
						Net debt/equity	-41.9%	-102.3%	-98.4%	-12.2%
						Net interest/EBIT cover (x)	66.7	122.6	27.7	48.9
						ROIC	-81.6%	-123.9%	1718.8%	-4300.2%
						Internal liquidity				
						2015A	2016F	2017F	2018F	
						Current ratio (x)	7.8	11.2	7.3	2.5
						Receivables turnover (x)	0.2	6.3	10.4	10.4
						Payables turnover (x)	5.3	8.5	15.1	13.8

Cash flow (A\$m)	2014A	2015A	2016F	2017F	2018F
EBITDA	-7	-11	-14	-8	-6
Change in working capital	-0	2	8	-0	-0
Net interest (pd)/rec	0	0	0	0	0
Taxes paid	1	0	-0	0	-0
Other oper cash items	0	0	0	0	0
Cash flow from ops (1)	-7	-9	-5	-9	-6
Capex (2)	-0	-0	-0	0	0
Disposals/(acquisitions)	0	0	0	0	0
Other investing cash flow	0	0	0	0	0
Cash flow from invest (3)	-0	-0	-0	0	0
Incr/(decr) in equity	0	0	0	0	0
Incr/(decr) in debt	0	0	0	0	0
Ordinary dividend paid	0	0	0	0	0
Preferred dividends (4)	0	0	0	0	0
Other financing cash flow	11	8	15	0	0
Cash flow from fin (5)	11	8	15	0	0
Forex and disc ops (6)	0	0	0	0	0
Incr/(decr) cash (1+3+5+6)	4	-1	9	-9	-6
Equity FCF (1+2+4)	-7	-9	-6	-9	-6

Balance sheet (A\$m)	2014A	2015A	2016F	2017F	2018F
Cash & deposits	7	6	15	7	2
Trade debtors	0	0	0	0	0
Inventory	10	9	0	0	0
Investments	0	0	0	0	0
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Fixed assets	0	0	0	0	0
Other assets	1	0	0	0	0
Total assets	19	15	16	8	3
Short-term borrowings	0	0	0	0	0
Trade payables	1	2	1	1	1
Long-term borrowings	0	0	0	0	2
Provisions	0	0	0	0	0
Other liabilities	1	0	0	0	0
Total liabilities	2	2	1	1	3
Preference shares	0	0	0	0	0
Hybrid equity	0	0	0	0	0
Share capital	58	66	67	59	53
Other reserves	0	-0	-0	-0	-0
FCTR	0	0	0	0	0
Unrealised gains/losses	0	0	0	0	0
Retained earnings	-42	-53	-53	-53	-53
Other equity	0	0	0	0	0
Total equity	17	13	15	7	0
Minority interest	0	0	0	0	0
Total shareholders' equity	17	13	15	7	0
Total liabilities & SE	19	15	16	8	3

SOURCE: MORGANS RESEARCH, COMPANY

Figure 2: Changes to forecasts

	FY16			FY17			FY18		
	Prev-FY16F	Rev-FY16F	Change	Prev-FY17F	Rev-FY17F	Change	Prev-FY18F	Rev-FY18F	Change
Revenue	0.1	0.1	3.7%	0.1	0.1	0.0%	0.1	0.1	0.0%
EBITDA	-8.7	-13.7	-57.6%	-6.3	-8.3	-32.4%	-2.3	-6.4	-176.8%
NPAT	-8.5	-13.6	-60.2%	-6.2	-8.1	-30.6%	-2.6	-6.3	-142.6%
EPS	-2.4	-2.6	-9.7%	-1.5	-1.1	-26.2%	-0.6	-0.9	-43.7%

SOURCE: MORGANS RESEARCH, COMPANY

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