

# Factor Therapeutics

## Not long to wait now

**ADD** (no change)

Current price:	A\$0.052
Target price:	A\$0.073 ▲
Previous target:	A\$0.068
Up/downside:	40.0%
Reuters:	FTT.AX
Bloomberg:	FTT AU
Market cap:	US\$31.92m
	A\$43.39m
Average daily turnover:	US\$0.04m
	A\$0.05m
Current shares o/s	834.0m
Free float:	100.0%

- FTT expects the Phase 2b VLU trial to read out its top line result in 4QCY18. The primary end-point is the realisation of a percentage decrease in the ulcer area.
- FTT posted a 1HCY18 net loss of A\$4.7m and finished the period with A\$6.4m in cash. We have made only minor changes to forecasts.
- We recently spoke with CEO Dr Ros Wilson who explained the upcoming trial and highlighted the other applications of the technology. Podcast and video interview are enclosed. We have upgraded our target price to A\$0.073 and maintain an Add recommendation.

### Top line results due to read out in 4QCY18

The next key catalyst is a read out of FTT's Phase 2b venous leg ulcer (VLU) trial which is expected in October/November. Recruitment of 156 patients has been completed across more than 20 sites in the US. The primary goal is the realisation of a percentage decrease in the study ulcer area due to the application of VF-00102 (FTT's wound care technology). Secondary indicators that will be tracked throughout the trial include: proportion of patients with complete ulcer closure; time to ulcer closure; time to first instance of no ulcer study pain; and time to meaningful pain reduction. The trial has taken place over a 26-week period including 2 weeks screening, 12 weeks treatment and 12 weeks follow up. If the trial is successful, licensing opportunities will be pursued.

### Minor changes to forecasts

FTT posted its 1HFY18 results recording a net loss of A\$4.8m (pcp net loss A\$4.2m). The key components were: A\$2.6m in clinical trial costs and A\$0.7m in employee expenses. The cash position was A\$6.4m at period end. With the recruitment for the clinical trial now completed, we expect trial costs will be lower in 2HCY18. We have increased our administration costs for the forecast period which sees our net loss increase by A\$0.7m to A\$6.9m for CY18 and our NPAT decreased by A\$0.7m for CY19/20, respectively. FTT has changed its year end to December to fall in line with the US accounting year. We have not adjusted our historical numbers as they are largely irrelevant.

### Interview with CEO

We spoke with FTT's CEO Dr Ros Wilson where she provided an update to the Morgan's network and commented on the upcoming VLU trial and also some of the other applications for the technology. Listen to the interview [here](#).

### Investment view – a binary event approaches

Following the changes to forecasts, rolling forward our model and a pre-emptive A\$12m capital raise in CY19, our DCF valuation has increased to A\$0.073 from A\$0.068. We have set the price target at the same level. The risk to the target is a negative clinical trial read-out. FTT is recommended only for investors with a higher risk profile.



Price performance	1M	3M	12M
Absolute (%)	-3.7	33.3	-16.1
Relative (%)	-3.4	29.6	-25.1

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Analyst(s) own shares in the following stock(s) mentioned in this report:

– N/A

Financial Summary	Dec-16A	Dec-17A	Dec-18F	Dec-19F	Dec-20F
Revenue (A\$m)	0.43	3.90	0.30	10.00	16.31
Operating EBITDA (A\$m)	-11.72	-5.69	-6.89	0.29	2.61
Net Profit (A\$m)	-11.65	-5.64	-6.80	0.35	2.92
Normalised EPS (A\$)	(0.023)	(0.008)	(0.009)	0.000	0.003
Normalised EPS Growth	(43%)	(66%)	13%		659%
FD Normalised P/E (x)	NA	NA	NA	139.6	18.4
DPS (A\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	119.4	14.4
P/FCFE (x)	NA	NA	NA	NA	25.58
Net Gearing	(92.6%)	(68.1%)	(49.9%)	(74.4%)	(74.1%)
P/BV (x)	1.73	3.69	6.23	2.57	2.47
ROE	(80.7%)	(43.7%)	(80.7%)	2.7%	14.4%
% Change In Normalised EPS Estimates					
Normalised EPS/consensus EPS (x)			0.87		

SOURCE: MORGANS, COMPANY REPORTS

Figure 1: Financial summary

Factor Therapeutics					Closing price (A\$)		Target price (A\$)				
Income statement (A\$m)					2017A	2018F	2019F	2020F	0.05	0.073	
Divisional sales	3.9	0.3	10.0	16.3	Valuation metrics		DCF		Valuation		
Total revenue	3.9	0.3	10.0	16.3	DCF valuation inputs		Rf		10-year rate		
EBITDA	-5.7	-6.9	0.3	2.6	Rm-Rf		6.50%		Margin		
Associate income	0.0	0.0	0.0	0.0	Beta		1.60		Kd		
Depreciation	-0.0	0.0	0.0	0.0	CAPM (Rf+Beta(Rm-Rf))		15.7%		Ke		
EBITA	-5.7	-6.9	0.3	2.6	E/EV*Ke+D/EV*Kd(1-t)		100.0%		NPV cash flow (A\$m)		
Amortisation/impairment	0.0	0.0	0.0	0.0	Equity (E/EV)		0.0%		Minority interest (A\$m)		
EBIT	-5.7	-6.9	0.3	2.6	Debt (D/EV)		7.3%		Investments (A\$m)		
EBIT(incl associate profit)	-5.7	-6.9	0.3	2.6	Interest rate		30.0%		Equity market value (A\$m)		
Net interest expense	0.1	0.1	0.1	0.3	Tax rate (t)		15.7%		Diluted no. of shares (m)		
Pre-tax profit	-5.6	-6.8	0.4	2.9	WACC				DCF valuation (A\$)		
Income tax expense	0.0	-0.0	-0.0	0.0					0.073		
After-tax profit	-5.6	-6.8	0.3	2.9							
Minority interests	0.0	0.0	0.0	0.0							
NPAT (normalised)	-5.6	-6.8	0.3	2.9							
Significant items	0.0	0.0	0.0	0.0							
NPAT (reported)	-5.6	-6.8	0.3	2.9							
Cash flow (A\$m)					2017A	2018F	2019F	2020F			
EBITDA	-5.7	-6.9	0.3	2.6	Multiples		2018F	2019F	2020F		
Change in working capital	-1.7	0.1	-1.6	-0.8	Enterprise value (A\$m)		36	40	29		
Net interest (pd)/rec	0.1	0.0	0.1	0.3	EV/Sales (x)		121.2	4.0	1.8		
Taxes paid	0.0	-0.0	-0.0	0.0	EV/EBITDA (x)		(5.3)	138.8	11.2		
Other oper cash items	0.0	0.0	0.0	0.0	EV/EBIT (x)		(5.3)	138.8	11.2		
Cash flow from ops (1)	-7.3	-6.8	-1.2	2.1	PE (normalised) (x)		(6.0)	139.6	18.4		
Capex (2)	-0.0	-0.0	0.0	0.0	PEG (normalised) (x)		(0.5)	(1.3)	0.0		
Disposals/(acquisitions)	0.0	0.0	0.0	0.0	Price/Book (x)		6.23	2.57	2.47		
Other investing cash flow	0.0	0.0	0.0	0.0	At target price		2018F	2019F	2020F		
Cash flow from invest (3)	-0.0	-0.0	0.0	0.0	EV/EBITDA (x)		(8.3)	161.5	17.1		
Incr/(decr) in equity	0.0	0.0	0.0	0.0	PE (normalised) (x)		(8.4)	195.4	25.8		
Incr/(decr) in debt	0.0	0.0	0.0	0.0	Comparable data (x)		2019F	2020F			
Ordinary dividend paid	0.0	0.0	0.0	0.0	ImpediMed		EV/EBITDA	-6.0	-14.1		
Preferred dividends (4)	0.0	0.0	0.0	0.0	Y/E June		EV/EBIT	-6.0	-13.9		
Other financing cash flow	0.0	3.1	12.0	0.0			PE	-6.8	-7.2		
Cash flow from fin (5)	0.0	3.1	12.0	0.0			PEG	0.3	1.5		
Forex and disc ops (6)	0.0	0.0	0.0	0.0			Volpara	EV/EBITDA	6.0		
Incr/(decr) cash (1+3+5+6)	-7.4	-3.8	10.8	2.1			Y/E April	EV/EBIT	7.5		
Equity FCF (1+2+4)	-7.4	-6.9	-1.2	2.1				PE	9.2		
								PEG	9.6		
Balance sheet (A\$m)					2017A	2018F	2019F	2020F	Per share data		
Cash & deposits	7.0	3.3	14.0	16.1			2018F	2019F	2020F		
Trade debtors	0.1	0.0	0.8	1.3	No. shares		782	934	1,034		
Inventory	0.0	0.0	1.0	1.6	EPS (normalised) (cps)		-1	0	0		
Investments	0.0	0.0	0.0	0.0	EPS (dil. normalised) (cps)		-1	0	0		
Goodwill	0.0	0.0	0.0	0.0	Dividend per share (cps)		0	0	0		
Other intangible assets	0.6	0.6	0.6	0.6	Franking (%)		0%	0%	0%		
Fixed assets	0.1	0.1	0.1	0.1	Dividend payout ratio (%)		0.0%	0.0%	0.0%		
Other assets	3.4	3.4	3.4	3.4	Dividend yield (%)		0.0%	0.0%	0.0%		
Total assets	11.2	7.4	19.9	23.2	Growth ratios		2018F	2019F	2020F		
Short-term borrowings	0.0	0.0	0.0	0.0	Sales growth		-92.3%	3233.3%	63.1%		
Trade payables	0.6	0.6	0.8	1.1	Operating cost growth		-25.0%	35.0%	41.0%		
Long-term borrowings	0.0	0.0	0.0	0.0	EBITDA growth		21.2%	-104.2%	802.7%		
Provisions	0.0	0.0	0.0	0.0	EBITA growth		20.3%	-104.2%	802.7%		
Other liabilities	0.2	0.2	0.2	0.2	EBIT growth		20.3%	-104.2%	802.7%		
Total liabilities	0.9	0.8	1.0	1.4	Reported NPAT growth		20.5%	-105.1%	740.1%		
Preference shares	0.0	0.0	0.0	0.0	Normalised NPAT growth		20.5%	-105.1%	740.1%		
Hybrid equity	0.0	0.0	0.0	0.0	Reported EPS growth		12.6%	-104.3%	658.8%		
Share capital	80.0	76.2	88.6	91.5	Normalised EPS growth		12.6%	-104.3%	658.8%		
Other reserves	0.2	0.2	0.2	0.2	Operating performance		2018F	2019F	2020F		
FCTR	0.0	0.0	0.0	0.0	Asset turnover		10.5%	0.6%	11.6%		
Unrealised gains/losses	0.0	0.0	0.0	0.0	EBITDA margin		-2297.8%	2.9%	16.0%		
Retained earnings	-69.9	-69.9	-69.9	-69.9	EBIT margin		-2297.8%	2.9%	16.0%		
Other equity	0.0	0.0	0.0	0.0	Net profit margin		-2265.7%	3.5%	17.9%		
Total equity	10.3	6.5	18.9	21.8	Return on net assets		-105.5%	1.5%	12.0%		
Minority interest	0.0	0.0	0.0	0.0	Net debt (A\$m)		-3.3	-14.0	-16.1		
Total shareholders' equity	10.3	6.5	18.9	21.8	Net debt/equity		-49.9%	-74.4%	-74.1%		
Total liabilities & SE	11.2	7.4	19.9	23.2	Net interest/EBIT cover (x)		49.1	-4.4	-9.3		
					ROIC		-146.6%	6.2%	37.8%		
					Internal liquidity		2018F	2019F	2020F		
					Current ratio (x)		7.6	18.3	16.3		
					Receivables turnover (x)		51.4	0.7	9.3		
					Payables turnover (x)		15.6	10.4	10.1		

SOURCE: MORGANS RESEARCH, COMPANY

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