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Mayne Pharma (MYX)

A closer look at the development pipeline

Recommendation
Buy (unchanged)
Price
$1.44
Target (12 months)
$1.67 (previously $1.52)

Expected Return	
Capital growth	**16%**
Dividend yield	**0%**
Total expected return	**16%**

Company Data & Ratios	
Enterprise value	**$1,167.4m**
Market cap	**$1,162.4m**
Issued capital	**807.2m**
Free float	**100%**
Avg. daily val. (52wk)	**$2.2m**
12 month price range	**$0.58 - $1.44**
GICS sector	
Healthcare Equipment and Services	

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	1.05	1.04	0.58
Absolute (%)	36.67	37.98	148.35
Rel market (%)	34.85	37.82	149.75

Balance sheet valuation of pipeline understates real value

The MYX balance sheet includes an intangible asset with a book value of $302m. It comprises (amongst other items) acquisition goodwill, acquired trade names and capitalised development costs. This note reviews the latter two items and projects a valuation of the development pipeline based on the estimated future cash flows.

Following this analysis, we estimate the value of the drug development pipeline at $460m (previously $350m). As a result of this adjustment we revise our price target up from $1.52 to $1.67.

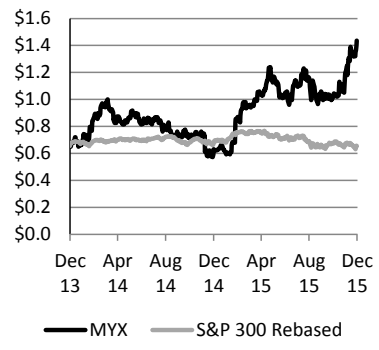
Long term investments turning cash flow positive

Earlier in 2015 MYX acquired the distribution rights for its three oxycodone products, then at the recent AGM update the CEO confirmed that Oxycodone has become the leading generic franchise in the portfolio. Although there are 10 generics in the market, MYX is vastly under represented in market share. We review the earnings potential of this molecule and conclude there is potential for up to a 10x increase in GP contribution.

In addition the company has a portfolio of 17 Abbreviated New Drug Applications (ANDAs) awaiting approval from the FDA in the US. Six of these are in active discussion. We estimate the combined annual gross sales of value of the six ANDAs is approximately US$800m with the potential to generate annual gross profit contribution of up to US$56m (A$77m). As these are generic products they do not have a sales force, hence a large portion of the GP may be expected to fall to EBITDA. The earnings estimates are not yet included in our forecast as the timing of approvals while approaching, remains uncertain.

We maintain our Buy recommendation.

Absolute Price



SOURCE: IRESS

Earnings Forecast

June Year End	FY15	FY16e	FY17e	FY18e
Revenues	141.4	259.5	275.3	283.5
EBITDA $m	36.4	81.4	86.4	88.9
NPAT (underlying) $m	17.9	48.6	51.8	53.2
NPAT (reported) $m	7.5	39.5	42.2	43.3
EPS underlying (cps)	2.6	5.8	6.2	6.3
EPS growth %	-37%	119%	7%	3%
PER (x)	54.2	24.8	23.3	22.6
FCF yield (%)	0%	-1%	-1%	-1%
EV/EBITDA (x)	32.0	14.3	13.5	13.1
Dividend (cps)	-	-	-	-
Franking	0%	0%	0%	0%
ROE %	2.3%	10.9%	10.4%	9.6%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Overview of Intangible Asset Portfolio

Figure 1 - Intangible Asset Summary – June 2015

	Acquistion Goodwill	Customer Contracts, consumer relationships, product rights and IP	Development Expenditure	Marketing and Distribution	Trade names	Other	Total
Carrying Value	58.4	38.6	51.6	56.6	65.2	32.5	302.9

SOURCE: COMPANY DATA

The vast majority ($49m) of the Acquisition Goodwill relates to the Metrics acquisition from 2012.

The vast majority of the trade names ($64m) relates to the Doryx and related assets acquired in Feb 2015.

The Marketing and Distribution intangible is comprised of various brand acquisitions and other items which we summarise as follows:

Figure 2 - Market and Distribution

Drug	Indication	$m
Kapanol (Australia only)	Strong pain DR (Opioid)	13.8
Zebutal (branded generic)	Mild Pain - IR	1.1
ESGIC (branded generic)	Mild Pain - IR	12.5
Lorcet	Strong pain IR (Opioid)	
BAC capsule	Mild pain - IR	20.6
Methampetamine tablet	ADHD	
Oxycodone (tablet & capsule)	Moderat to severe pain (Opioid)	9.5
		57.5
Other adjustment which net to carrying value		-0.9
		56.6

SOURCE: COMPANY DATA

The portfolio includes 3 products with the same drug combination of acetaminophen/butal bital/caffeine covering capsules, tablets, branded generics and a generic

The most recent of these acquisitions was Oxycodone. From 1 May 2015 the company cancelled the third party distribution agreements for its three oxycodone products with its third party distributor (Mylan). We estimate the net value of the oxycodone market in the US exceeds US$600m of which MYX current has a ~1% share[1].

The benefits of MYX controlling its distribution in this market are already showing with the company recently confirming Oxycodone is now the number one generic franchise[2]. Methamphetamine was also highlighted as a key driver of growth.

We estimate revenues from Oxycodone sales in FY16 of US$13m (FY15: US$5.4m) which more than justifies the carrying value of $9.5m.

With the exception of Methamphetamine (also a Schedule II drug) the Marketing and Distribution intangible asset is devoted to pain management in either schedule II or schedule III controlled substances[3]. Schedule II substances must be manufactured in the United States, hence this acts as a major barrier to new product entries.

[1] Being estimated net revenues from oxycodone tablets in various strengths plus the combination of oxycodone with acetaminophen

[2] Refer November 2015 AGM statements.

[3] Controlled Substances Act – United States.

MARKET SHARE IN PAIN FRANCHISE TO EXPAND

As the generics portfolio increases in size and Mayne assumes control of distribution, we expect it to increase market share, particularly in those products where it is under represented relative to the number of generics in the market.

Figure 3 demonstrates the company's relative share across various generic products in the US.

Figure 3 - Market Share Analysis

Product	Format	IMS Product Market Size (Gross Value) US$m	Numberof Generics incl. MYX	Market share
BAC	Capsule	6	1	91%
BAC	Tablet	106	5	Launched Aug 15
BACCP	Capsule	40	4	Launched Dec 15
Methamphatamine	Tablet	8	1	86%
Erythromycine DR	Capsule	5	2	69%
Liothyronine	Tablet	59	2	36%
Amiodarone	Tablet	11	3	34%
Doxycycline DR	Tablet	38	4	25%
Nystatin	Powder	71	6	10%
Oxycodone	Capsule	8	4	40%
Oxycodone	Solution	24	6	8%
Oxycodone	Tablet	345	10	1%
Oxycodone/APAP	Tablet	920	10	1%
Hydrocodone/APAP	Tablet	830	9	1%

SOURCE: COMPANY DATA

The highlighted section refers to the Oxycodone and Oxycodone/APAP market where MYX is under penetrated. As previously stated the Oxycodone market is now the number one franchise in the generic portfolio and we expect further market share improvements over the next two years.

The following sensitivity analysis demonstrates the earnings potential of this market:

Figure 4 - Oxycodone Market (tablets only)- sensitivity analysis

	IMS US$m	Discount (est.)	Net Sales US$m	
Oxycodone Tablet	345	50%	173	
Oxycodone/APAP	920	50%	460	
			633	
Market share	**1%**	**2%**	**5%**	**10%**
Sales value @net	6.3	12.7	31.6	63.3
GP contribution @ 56%	3.5	7.1	17.7	35.4
AUD $m	4.9	9.7	24.3	48.5

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Based on this analysis, there is potential for significantly greater returns from modest increase in market share – provided these are achieved without further price discounting.

The forecast for FY16 assumes market share increases from 1% to ~2%. The limiting factors include the introduction of more generics – albeit there are already 10 registered generics for Oxycodone.

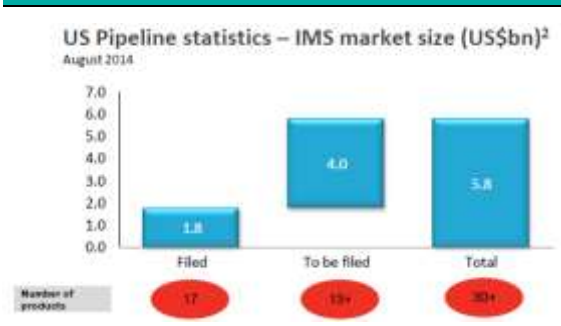
In the last year the following products have received additional generic competition from the following manufacturers:

- Oxycodone solution – Vintage Pharm, ANI, Lannet
- Oxycodone capsule - Avanthi
- Methamphetamine – Roxane ANDA approved, not yet launched

CAPITALISED DEVELOPMENT EXPENDITURE

Capitalised Development Expenditure of $51.6m is represented by the various products in the FDA generic pipeline.

Figure 5 - Development Pipeline - June 2014



SOURCE: COMPANY DATA

Figure 6 - Development Pipeline – June 2015

SOURCE: COMPANY DATA

We estimate the average cost of development for each Abbreviated New Drug Application (ANDA) is in the range of ~$1m to $5m although there will be considerable variation depending on the complexity of the formulation.

Small molecule drugs where there is no requirement for bioequivalence studies can be developed quickly and generally for less than $1m. Alternatively a complex drug such as Tikosyn requires substantially more effort and cost.

Capitalised development expenditure in FY15 was $13.5m which contributed to the closing value at June 2015 of $51.6m. Despite this expenditure there were no net additions to the pipeline during FY15.

In FY13 MYX filed 7 products with gross sales value >US$400m. In FY14 it filed a further 10 products which was the result of R&D over several years before and well above the average filing rate. In FY15 the company started a number of new projects. The Doryx 50mg was approved in FY15.

The carrying value of the development pipeline remains a risk area. Changing market conditions (for example the release of new generics by competitors) has led to impairment charges and may occur from time to time. In FY15 the impairment charges totalled $1.3m. The risks are mitigated by the following factors:

- Highly experienced drug development selection panel;
- Ongoing monitoring of markets;
- Focus on controlled substances where barriers to entry are significantly higher;
- Cost of development is normally much less expensive than in-licence or straight acquisition.

In addition, it is not uncommon for the cost of generics to increase where there are few generics in the market. Doryx had a 9% price rise in October while Tikosyn (Dofetilide) recently had a ~15% price rise[4].

[4] Based on analysis of price and volume data from Bloomberg. Price change effective from 1 October 2015.

The investment of capital for the development of a new generic carries the risk of a medium to long term investment. Cash flows are generally a minimum of 4 years away from the time a new project commences. The main delay is due to FDA approval times – currently running at 40 months (with the exception of first to file where the review process is accelerated), however, it is hoped this will improve.

Of the seventeen filed ANDAs at 30 June 2015, the BACCP capsule has since been approved for release and we understand was launched in December 2015.

We estimate the earnings potential of this product in figure 7:

Figure 7 - BACCP capsules - earnings potential

IMS Gross market value US$m	40
Generic Discount	50%
Net market value US$m	20
Number of generics	4
Market share estimate	25%
Revenue estimate US$m	5
Margin US$m	56%
GP contribution US$m	2.8

SOURCE: COMPANY DATA

The key variables in the calculation are the generic discount, market share and the margin estimate. **We would expect MYX to build its market share to 25% over the period of 1 to 2 years,** hence based on this estimate the gross profit contribution would represent a payback of less than 2 years (after allowing for the ramp up period) and assuming a $2m to $3m investment.

In addition MYX launched the BAC tablet (as opposed to the capsule) in August 2015. This is a US$106m market, however the investment dynamics are quite different, as this is an in-licence (therefore zero development cost) from Mikart and is likely to includes a profit share arrangement.

The earnings potential of the pipeline becomes far more compelling when larger markets with fewer competitors are involved. The soon to be released Tikosyn (Dofetilide) is a compelling example.

Figure 8 – Tikosyn forecast earnings contribution

	High	Low
IMS Gross market value US$m	170	170
Generic Discount	30%	40%
Net market value US$m	119	102
Numbe of generics	3	3
Market share estimate	**40%**	**33%**
Revenue estimate US$m	47.6	33.7
Margin US$m	80%	80%
GP contribution US$m	38.1	26.9
GP after 50:50 profit split with Johnson Mathey	19.0	13.5

SOURCE: COMPANY DATA

In this case we include 3 products being the original Pfizer drug plus an authorised generic (AG) and the MYX generic. The generic discount is also lower (than for BACCP tablets) because there are fewer products. Mayne Pharma has not issued earnings guidance in relation to Tikosyn.

Applying this logic to the remainder of the portfolio and the numbers add up quickly.

Figure 9 - Potential earnings contribution from development pipeline

US$m	Filed ANDAs	Active Dialogue
IMS sales value	1,800	800
Tikosyn	170	170
Net of Tikosyn	1,630	630
Average generic discount	40%	40%
Net generic market value	978	378
Assumed generic numbers	5	5
Potential market share	196	76
Potential GP contribution at 56%	110	42
Tikosyn	14	14
Estimated GP contribution	**124**	56
Conversion rate	0.73	0.73
A$m	169	77

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

In other words, the annual gross profit contribution for the development pipeline may be in the vicinity of A$169m although we generally allow for a large margin of error i.e. ± 20%.

This estimate represents the seventeen abbreviated new drug applications (ANDAs) which have been filed. There are a further thirteen ANDAs under development and yet to be filed. These thirteen represent an additional gross value of turnover of US$5.5bn for which we have not yet included an assessment their potential contribution.

As the generics portfolio is not supported by a sales force, a large percentage of the GP contribution is expected to fall to the EBITDA line.

It is not realistic to expect MYX will obtain the market shares implied by the estimate immediately following launch of the generic product, hence in preparing forecasts it is necessary to allow for growth in market shares and potentially the introduction of more generics by other manufacturers.

MYX is in active dialogue with the FDA on six ANDA's including Dofetilide. Active dialogue generally means the FDA has asked some questions regarding the dossier for the drug and company is (or has) responding.

We expect the short term pipeline may also include a DR pain medication similar to Kapanol which the company has the rights to outside of the US. This would drug is required to be manufactured in the US.

Based on simple averages (17 ANDAs representing $1.8bn of revenues) and allowing for the known market value of Dofetilide, the combined IMS sales value of the six drugs under active dialogue is ~US$800m. We estimate the approval of these ANDA may yield an annual GP contribution of up to A$77m.

The earnings from these generics are not yet included in earnings forecasts, however, the value is included the target price via the pipeline valuation. The earnings impact may be diluted by the approval of additional generics or other market forces.

EXPANDING PRODUCTION CAPACITY TO MEET FORECAST DEMAND

In August 2015 MYX disclosed its plans for an expansion of the manufacturing facility at Greenville, in North Carolina. In addition MYX will expand the modified release manufacturing facility at Salisbury, SA.

These expanded facilities will provide the manufacturing platform/capacity which are the subject of the development pipeline. The estimated cost of these facilities is $100m spread over FY16 – FY18. Without these facilities the pipeline valuation is substantially less and MYX would be unable to capture 100% of the manufacturing margin.

VALUATION IMPLICATIONS

Our target price of $1.67/sh is inclusive of a $460m valuation attributable to the development pipeline. We determine the A$460m valuation via a DCF model which we summarise as follows:

Figure 10 - Development Pipeline - valuation analysis

Cash flow date	30-Jun-16	30-Jun-17	30-Jun-18	30-Jun-19	29-Jun-20	30-Jun-21	30-Jun-22	30-Jun-23	29-Jun-24	30-Jun-25	30-Jun-26
Year	0	1	2	3	4	5	6	7	8	9	10
Cash flow	-51.6	169	169	169	169	169	169	169	169	169	169
Market share build factor		5%	20%	50%	70%	90%	100%	100%	100%	100%	100%
Adjusted cash flow	-51.6	8.5	33.8	84.5	118.3	152.1	169.0	169.0	169.0	169.0	169.0
Discount factor	0	0.87	0.76	0.66	0.57	0.50	0.43	0.38	0.33	0.28	0.25
Discounted cash flow	-51.6	7.3	25.6	55.6	67.6	75.6	73.1	63.5	55.2	48.0	41.8
NPV	**461.8**										
Discount rate	15%										
IRR	87%										

SOURCE: BELL POTTER SECURITIES ESTIMATES

Note that we have not included a terminal value calculation in the DCF.

These estimates do not include the potential earnings impact of the thirteen ANDA's yet to be filed.

Based on the analysis we revise the pipeline valuation upwards from $350m to $460m. These adjustments result in an adjustment to our target price from $1.52 to $1.67.

About Mayne Pharma

Mayne Pharma is a developer, manufacturer and distributor of generic pharmaceuticals. The company has a portfolio of branded and generic medicines which it distributes in many countries around the world.

In 2012 it acquired Metrics Pharmaceuticals in the US for US$105m (representing 2.3x revenues and 7.5x EBITDA). This was transformational for Mayne and elevated it from a small domestic based generics and OTC medicines business, into a larger player with a more substantial product pipeline, more development capability and with direct distribution into the USA.

The market for generics medicines in the US is estimated at US$60bn and growing.

Mayne Pharma has four divisions being Mayne Pharma International, Generic Products, US Branded Product and Metrics Contract Services. The US Generic business is currently the largest revenue generator, however the Specialty Brands Division is growing fastest and is expected to overtake the US Generics business in revenues in FY16.

Mayne specialises in lower value generics markets and has particular expertise in the development of extended release formulations. Its most successful product is the Doryx delayed release formulation which it patented. It acquired the rights for US distribution in February 2015.

The company has extensive R&D facilities at its manufacturing facility in Adelaide and in the US. It spends more than $22m annually on product development and life cycle management. The company's largest manufacturing plant is also in Adelaide where it manufactures Doryx, Kapanol and other over the counter medicines. It also has manufacturing facilities in the US.

A significant component of the valuation of the company depends on the development pipeline. At any time the company may have numerous generic products awaiting approval by the FDA. Mayne Pharma provides little data regarding this asset and accordingly valuation is a challenge. The potential upside from being first to market with a new generic is potentially worth millions in earnings.

Valuation – we continue to use a capitalised earnings approach to set the price target for Mayne Pharma.

Key Risks - include but are not limited to the following:

Price Deflation - The generics industry is subject to ongoing price deflation as new generic products are approved. Mayne Pharma targets molecules generally with a market of less than $100m where there are relatively few generics.

Product approval and regulatory risk – the industry is highly regulated. New products require extensive development time and separate approval in every country. The company's top executives are involved in the key decisions on which products to develop and the selection of markets for those products.

Competition – there are many market participants and drug developers globally. New product innovation may render generic medicines obsolete in a short period.

Mayne Pharma
as at 21 December 2015

Recommendation	Buy
Price	$1.44
Target (12 months)	$1.67

Table 1 - Financial summary

Profit & Loss (A$m)	FY14	FY15	FY16e	FY17e	FY18e
Year Ending June					
Total revenues	143.2	141.4	259.5	275.3	283.5
Revenue growth	**70.3%**	**-1.3%**	**83.6%**	**6.1%**	**3.0%**
COGS	- 68.2	- 61.4	- 92.0	- 106.5	- 110.4
Gross Profit	75.0	80.0	167.5	168.8	173.1
GP margin	52%	57%	65%	61%	61%
EBITDA	40.3	36.4	81.4	86.4	88.9
EBITDA margin %	28.2%	25.7%	31.4%	31.4%	31.4%
Depreciation	-4.9	-5.0	-5.5	-5.5	-5.5
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	**35.4**	**31.4**	**75.9**	**80.9**	**83.4**
EBIT margin %	24.8%	22.2%	29.2%	29.4%	29.4%
Net interest	(3.9)	(5.9)	(1.1)	(1.1)	(1.5)
Pre tax profit	31.5	25.5	74.8	79.7	81.9
Tax expense	(6.8)	(7.7)	(26.2)	(27.9)	(28.7)
NPAT- normalised	24.7	17.9	48.6	51.8	53.2
Amortisation of intangibles	(4.9)	(8.5)	(9.1)	(9.6)	(9.9)
Other one off items	-	(5.1)	-	-	-
Tax on adjustments	-	3.3	-	-	-
Reported NPAT	21.2	7.5	39.5	42.2	43.3
Cashflow (A$m)					
Net cash from operations	34.3	39.1	81.4	86.4	88.9
Working capital change	0.0	-	(1.2)	(1.5)	(1.4)
Net interest	(3.6)	(3.9)	(1.1)	(1.1)	(1.5)
Tax paid	(3.7)	(7.6)	(24.0)	(27.6)	(28.6)
One off items	(0.8)	-	-	-	-
Operating cash flow	26.2	22.5	55.1	56.1	57.4
Capital expenditure	(4.2)	(4.1)	(49.3)	(51.9)	(59.0)
Capitalised R&D	(30.8)	(13.5)	(15.0)	(15.0)	(15.0)
Earn out instalments	(15.0)	(11.9)	(4.6)	(5.0)	-
Free cash flow	-23.8	-7.0	-13.8	-15.8	-16.6
Business acquistions	(0.8)	(66.0)	-	-	-
Proceeds from issuance	18.1	114.0	-	-	-
Movement in borrowings	2.4	1.1	(10.2)	9.8	5.1
Dividends paid	-	-	-	-	-
Change in cash held	(4.1)	42.1	(24.0)	(6.0)	(11.5)
Cash at beginning of period	18.9	14.8	59.2	40.0	40.0
Cash at year end	**14.8**	**59.2**	**40.0**	**40.0**	**28.5**

Balance Sheet (A$m)	FY14	FY15	FY16e	FY17e	FY18e
Cash	14.8	59.2	40.0	40.0	40.0
Receivables	29.8	64.6	64.9	68.8	70.9
Inventory	17.2	22.4	23.5	24.7	25.9
Other assets	4.1	10.5	10.5	10.5	-
Property, Plant and Equipment	53.4	59.6	103.4	149.8	203.3
Intangible assets	141.2	303.0	309.0	314.3	319.4
Deferred tax assets	1.3	9.6	9.6	9.6	9.6
Other	-	-	-	-	-
Total assets	265.8	528.9	560.9	617.8	669.1
Trade payables	17.1	59.9	59.4	63.0	64.9
Provision for income tax	0.4	1.8	4.0	4.2	4.3
Other financial liabilities	11.2	33.5	33.5	33.5	33.5
Deferred tax	21.8	41.4	41.4	41.4	41.4
Provisions	8.0	8.5	8.5	8.5	8.5
Debt - interest bearing	49.3	61.8	51.5	61.4	66.4
Total Liabilities	107.8	206.8	198.2	211.9	219.0
Net Assets	158.0	322.1	362.6	405.8	450.1
Share capital	137.5	255.8	255.8	255.8	255.8
Retained earnings	15.2	24.2	63.7	105.9	149.2
Reserves	5.3	30.8	30.8	30.8	30.8
Reserves	-	11.3	12.3	13.3	14.3
Shareholders Equity	158.0	322.1	362.6	405.8	450.1

Valuation Ratios (A$m)	FY14	FY15	FY16e	FY17e	FY18e
Year Ending June					
Reported EPS (cps)	3.6	1.1	4.7	5.0	5.2
Normalised EPS (cps)	4.2	2.6	5.8	6.2	6.3
EPS growth (%)	96%	-37%	119%	7%	3%
PE(x)	34.3	54.2	24.8	23.3	22.6
EV/EBITDA (x)	28.8	32.0	14.3	13.5	13.1
EV/EBIT (x)	32.8	37.0	15.3	14.4	13.9
NTA (cps)	3.0	2.4	6.7	11.3	16.2
P/NTA (x)	48.1	60.7	21.6	12.7	8.9
Book Value (cps)	28	40	45	50	56
Price/Book (x)	5.1	3.6	3.2	2.9	2.6
DPS (cps)	-	-	-	-	-
Payout ratio %	0%	0%	0%	0%	0%
Dividend Yield %	0%	0%	0%	0%	0%
Franking %	0%	0%	0%	0%	0%
FCF yield %	-1.0%	0.4%	-0.8%	-0.9%	-1.4%

Performance Ratios					
ROA	8.0%	1.4%	7.0%	6.8%	6.5%
ROE	13.4%	2.3%	10.9%	10.4%	9.6%
ROIC	12.1%	5.8%	13.0%	12.3%	11.5%
Net debt/Equity	21.8%	0.8%	3.2%	5.3%	5.9%
Net debt/Assets	13.0%	0.5%	2.1%	3.5%	3.9%
Gearing	17.9%	0.8%	3.1%	5.0%	5.5%
Net debt/EBITDA (x)	0.9	0.1	0.1	0.2	0.3
Interest cover (x)	9.1	5.3	67.0	71.8	55.6

Revenues by segment	FY14	FY15	FY16e	FY17e	FY18e
Specialty Brands Division					
Revenues	-	-	97.0	97.0	97.0
Gross profit	-	-	85.9	77.6	77.6
Margin			89%	80%	80%
Generic Products Division					
Revenues	56.9	67.7	83.8	96.4	101.2
Gross profit	32.0	36.2	46.9	54.0	56.7
GP margin	56%	53%	56%	56%	56%
Metrics Contract Services					
Revenues	28.4	33.8	41.7	43.8	46.0
Gross profit	13.0	17.0	21.7	22.8	23.9
GP margin	46%	50%	52%	52%	52%
Mayne Pharma Int.					
Reveues	61.2	60.7	37.0	38.1	39.3
Gross profit	31.3	34.2	13.0	14.5	14.9
GP margin	51%	56%	35%	38%	38%
Interco	(3.3)	(20.8)	-	-	-
Total revenues	**143.2**	**141.4**	**259.5**	**275.3**	**283.5**

Interim results (A$m)	2H14	1H15	2H15	1H16	2H16
Total revenues	72.5	59.5	81.9	129.2	130.9
EBITDA	22.3	14.4	22.0	39.9	41.5
EBITDA margin %	31%	24%	27%	31%	32%
D&A	-2.4	-2.5	-2.5	-2.8	-2.8
EBIT	19.9	11.9	19.5	37.2	38.7
Net interest	-1.3	-2.1	-3.8	-0.6	-0.6
Pre tax profit	18.6	9.0	16.5	36.6	38.2
Tax expense	-4.6	-2.7	-5.0	-12.8	-13.4
NPAT- normalised	14.0	6.3	11.5	23.8	24.8
Net abnormals	0.4	-2.5	-7.9	-4.5	-4.5
Reported NPAT	14.3	3.9	3.7	19.2	20.3

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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