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Theme
Corporate Access

Sector
Healthcare

The Great Drug and Device Gathering 2022: What we learned

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We hosted 14 emerging drug and device developers at our inaugural event on Hamilton Island last week. Subsectors of focus were radiopharmaceuticals, oncology, wound care, connected care SaaS businesses, rare disease drug developers and megamarket disruptors. Three key themes: 1) tight equity markets focus attention on extracting the most value from R&D whilst preserving clinical excellence; 2) clinical excellence should be a given but true success comes when the business model that delivers care creates new value for the end customer (the patient, the physician, the healthcare payer); 3) the drug and device industry is dominated by multinationals but channel consolidation makes these end markets accessible to small-mid independent players.

Key Points

Radiopharmaceuticals: Radioisotope supply. We spoke to two ASX-listed radiopharmaceutical companies (Telix and Clarity), each with unique aspects to their pipeline with regard to radio-isotope choice and supply logistics. Telix welcomes diversity and is building the infrastructure to supply both today's 'workhorse isotopes' and emerging ones, at global scale. Clarity played a long game on the $^{64}Cu/^{67}Cu$ theranostic 'perfect pair'. Cu has only recently become commercially available but has inherently appealing properties. Proprietary chemistry to harness both forms of copper positions Clarity as an IP gatekeeper to Cu-based radiopharmaceutical development. The repurposing of failed drugs as radiopharmaceutical targeting agents is a new avenue for both.

Alternative approaches in oncology. Both IMM and NOX have taken combinatorial approaches to their clinical development pipelines, combining their lead assets with current SoC, including blockbusters, Keytruda and Opdivo. The corporate appeal of NOX & IMM continues to grow as they prove out their strategies in later stage trials. For both, strategic partnership is a focus, with management teams well versed in big pharma operations, with a keen sense for where current portfolios lack defensibility (re competition, biosimilar entry) and possess novel assets with strong IP. Importantly in both cases, a portfolio of assets support valuation, versus a single shot on goal.

US wound care headed for a shake-up on value for money. Outpatient reimbursement changes from 2024 look likely to remove the perverse incentives in US wound care to use the most expensive products. This change will favour manufacturers of pragmatically priced products with high clinical performance. It will also encourage the return of patients from physician offices to hospital outpatient settings. Aroa's biologics look likely winners against high-cost alternatives in hospital outpatient setting. Next's decision to register as a Durable Medical Equipment (DME) provider is an interesting experiment that lays a platform for a first-and-only anti-biofilm collagen.

Getting SaaSy. SaaS in healthcare has seen rapid growth which has led to new opportunities for medical device companies. NAN's AuditPro will capitalise on data capture to drive customer acquisition and retention, particularly with new entrants coming to the market; SOM's RestAssure will stand to reinforce the use of COAT by providing sleep physicians with the treatment data on par with CPAP; and ImpediMed's SOZO model will allow expansion of patient reach and revenue generation, turning lymphoedema assessment into a profit centre for providers.

Rare disease drug development. Some strategic clarity was unveiled regarding why both NEU and ANP pivoted from a focus on large indications into rare disease development, noting that despite smaller TAMs in the latter, the incremental benefits of rare disease development (smaller trials, expedited regulatory pathways, higher drug ASPs, concentrated sales channels) outweigh the challenges (lack of clear benchmark approval predicates, trial design negotiations). The importance of advocacy support and close regulator interaction are paramount in rare disease, alongside complementarity of a drug's mechanism/actions to the emerging gene therapy field.

Novel disruptors. We focused on companies breaking into large ($5B+), entrenched markets that are dominated by 2-3 key players, who bring new technologies complementary to well-worn therapies: EBR and OPT. Corporate appeal of their respective technologies (WiSE and OPT-302) remains high as they both have the ability to insulate and expand market leader's existing franchises, providing sector leadership to whomever acquires them. Phase III data readouts are all that remain for both companies ahead of this activity and/or commercialisation.

Featured stocks

Company	Rating
Clarity Pharmaceuticals (CU6)	Overweight
Telix Pharmaceuticals (TLX)	Overweight
Noxopharm (NOX)	N/A
Immutep Limited (IMM)	Overweight
Next Science (NXS)	Overweight
Aroa Biosurgery (ARX)	Overweight
Nanosonics (NAN)	Overweight
SomnoMed (SOM)	Overweight
ImpediMed (IPD)	Overweight
Neuren Pharmaceuticals Ltd (NEU)	N/A
Antisense Therapeutics (ANP)	Overweight
EBR Systems (EBR)	Overweight
Opthea (OPT)	Overweight

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Company

Telix Pharmaceuticals (TLX)

Telix | Industrialising nuclear medicine

Recommendation OVERWEIGHT

12-mth target price (AUD) $8.15

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Investment thesis

We maintain our OVERWEIGHT rating and $8.15 price target on Telix Pharmaceuticals. Telix explained why the ability to scale both network-based and centralised manufacturing schemes is key to their strategy in radiopharmaceuticals development. Each imaging and therapy setting imposes its own constraints on isotope selection and product design. Broad-based skills remain attractive to Pharma as today's 'workhorse' radionuclides (^{68}Ga, ^{177}Lu) are scaled globally and new isotopes emerge (^{89}Zr, ^{224}Ac, ^{211}At). The next wave of Pharma engagement with radiopharmaceuticals may stem from repurposing 'failed' targets. Peptides or monoclonal antibodies that failed to elicit a biological impact may still find use in radioligand development (e.g. Telix in-licensing Lilly's olaratumab for soft tissue sarcoma development).

Focus areas & valuation

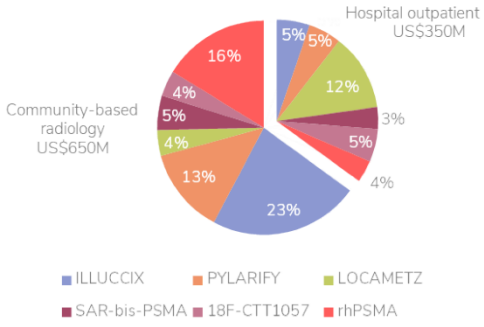
Telix's stock volatility is primarily driven by its imaging business, as ILLUCCIX launches in the US PSMA-directed prostate cancer PET/CT market. Our modelling is based on ILLUCCIX attaining a 28% share of a ~US$1B TAM. **Figure 1** shows our current thinking for the following agents: a) ILLUCCIX (Telix); b) PYLARIFY (Lantheus); c) LOCAMETZ and 18F-CTT1057 (Novartis); d) rhPSMA (Blue Earth / Bracco / Siemens); and e) SAR-bisPSMA (Clarity Pharmaceuticals).

Outlook for isotope supply chain and logistics. Telix's near term assets pragmatically adopted 'industry workhorse' isotopes including ^{68}Ga (imaging) and ^{177}Lu (beta-emitting therapeutic radionuclide). Demonstrating the ability to scale both network-based and centralised manufacturing schemes is a goal because the armamentarium of useful isotopes continues to expand (e.g. TLX250-CDx may be the first approved 89Zr agent; Big Pharma expressing clear interest in 'alpha emitters' {^{225}Ac and ^{211}At} for radioligand development).

TLX250-CDx Phase III trial read-out the critical catalyst to close out 2022. Data from Telix's ZIRCON Phase III trial are imminent. If successful, TLX250-CDx (^{89}Zr-girentuximab) could be approved in late 2023 as a non-invasive tool (PET/CT scan) for assessing the biology of small renal masses, looking specifically for clear cell renal cell carcinoma (ccRCC). ZIRCON is a confirmatory study seeking to rectify issues that prevented Wilex from securing FDA approval in 2012 with its ^{124}I-girentuximab. We assess a US$500M TAM assessing renal masses for ccRCC. TLX250-CDx also has a potential role in regimen choice including targeted therapies, immuno-oncology agents and ultimately, radioligand therapy (including Telix's ^{177}Lu-girentuximab, if approved).

Valuation. Our SOTP-based valuation and PT is set at $8.15 per share. Our 'imaging DCF' accounts for $6.00/share and is modified by asset-specific success probabilities (90% for ILLUCCIX; 75% for TLX250-CDx). A positive Phase III ZIRCON result (this month) would de-risk imaging attribution to $6.30/share and open the door for further share price upside. The two potential price drivers in that case are: a) ILLUCCIX sales continuing to accelerate ahead of our model; and b) the achievement of some 'hard' regulatory milestones gating the development and progress of TLX591 (e.g. FDA accepting an Investigational New Drug application allowing US enrolment in ProstACT study).

Figure 1: Predicted market shares for PSMA-directed PET/CT agents across hospital and radiology settings



Source: Wilsons.

Financial summary (Y/E Dec, AUD)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales ($m)	5.2	4.9	136.6	269.1	333.8
Consensus sales ($m)			148.4	331.5	495.5
EBITDA norm ($m)	(41.9)	(70.1)	(51.8)	3.4	41.6
NPAT norm ($m)	(45.1)	(80.5)	(59.7)	(0.7)	36.8
EV/Sales (x)	n/m	n/m	15.5	7.8	6.3
EV/EBITDA (x)	n/m	n/m	n/m	n/m	50.8
P/E (x)	n/m	n/m	n/m	n/m	59.1

Source: Company data, Wilsons estimate, Refinitiv.

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Company

Clarity Pharmaceuticals (CU6)

Clarity Pharmaceuticals | Copper up

Recommendation	**OVERWEIGHT**
12-mth target price (AUD)	$0.82

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Investment thesis

We retain an OVERWEIGHT rating on Clarity Pharmaceuticals with a $0.82/sh risked PT. Clarity is a combination of well-grounded science and right timing. They enter the nuclear medicine market armed with three unique strengths, a) a set of copper isotopes (^{64}Cu & ^{67}Cu) offering logistical and clinical benefits over traditional pairings that currently dominate the market; b) a tightly wrapped IP portfolio, particularly for their innovative SAR platform which separates and solidifies their technology from peers; and c) newly developed copper production methods which allow for commercial scale manufacturing and are attracting industry investment following ongoing shortages in mainstay isotopes (e.g. ^{18}F, ^{177}Lu). The company's conviction is demonstrated by taking on all comers in the cancer indications that have built the industry: neuroendocrine tumours (NETs) and prostate cancer. Strategically, Clarity's capabilities in copper also offers Pharma an entry point into radiopharmaceutical development providing alternatives to the current selection (^{18}F, ^{68}Ga and ^{177}Lu), each with different limitations. A theranostic program for both neuroblastoma (NB) and a 'pan cancer' agent, based on a bombesin analogue, completes the asset portfolio.

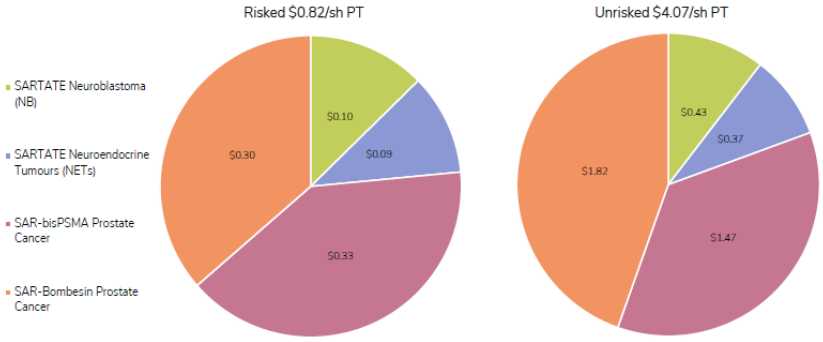
Key focus areas & valuation

Clarity's harness on copper has them primely positioned for a heated radiopharmaceutical market. Copper isotopes (^{64}Cu & ^{67}Cu) have long been sought after by scientists for their somewhat perfect chemistry and pairing however have been hampered due to safety and lack of production capabilities for ^{67}Cu. Clarity has remedied both of these issues with the development of their patented SAR platform and exclusive supply agreements using new technology to manufacture ^{67}Cu. With these in place Clarity have bolstered their appeal to pharma oncology players (Merck, Roche) yet to have a position within the nuclear medicine space. To compete with Novartis, others will look to take footholds with CU6 presenting a desirable IP package and clear differentiation from other players for pharma market entry.

Strategy to execute on rare disease indications and support larger long-term opportunities. Clarity will look to first establish their proprietary technology in neuroblastoma (NB) supported by two orphan drug designations, driving two potential priority review vouchers (~$100M value each) as well as commercial revenue in FY25e. This may allow Clarity to materially increase early revenue generation providing both a) funding and b) evidence for their main-revenue contributing programs in prostate cancer.

Clinical catalysts & valuation. Our $0.82/sh risked SOTP valuation utilizes real-options DCF for key pipeline programs; a) prostate $0.63/sh; b) NB $0.10/sh; and c) NETs $0.09/sh. No value is attributed to the breast cancer Dx program at present. Unrisked PT is $4.07/share. Clarity currently have 9 clinical trials underway across their portfolio which present as key catalysts in the near-term. Clinical readouts from 3 trials (CL04, DISCO, PROPELLER) in the next 6 months de-risk our valuation by ~20% to $0.98/sh.

Figure 1. CU6 sum-of-the-parts valuation (Risked & Unrisked)



Source: Wilsons estimates.

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Company
Noxopharm (NOX)

Noxopharm | Combinatorial smarts

NOT RATED

Company summary

We do not formally cover Noxopharm (NOX). Noxopharm is a clinical stage biotech company focused on development of their lead candidate, VEYONDA. NOX currently have three active Phase I/II trial programs underway with VEYONDA (idronoxil) combined with other treatments including; external beam radiation (DARRT program); anti-PD-1 checkpoint inhibitors (IONIC trial); and chemotherapy (CEP program). These programs span a range of cancer indications including prostate cancer and sarcoma (for which they have US Orphan Drug Designation status). NOX have also shown impressive efficacy of VEYONDA in boosting radiopharmaceutical response rates (with Novartis' PLUVICTO) in prostate cancer patients. Finally, NOX have a growing pipeline of pre-clinical assets formed out of their novel chemistry platforms; Chroma™ and Sofra™. Recently, initial human tumour explant data has highlighted a strong efficacy signal from a Chroma™ candidate in pancreatic cancer to support continued progression toward the clinic.

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Key focus areas

Several IND studies in pipeline focused on combinatorial treatment with various standard-of-care. VEYONDA is NOX's most developed asset, with promising clinical Phase I/II data in a range of cancer indications including prostate, solid tumours and sarcoma. Importantly NOX have two active IND trials underway evaluating VEYONDA efficacy in combination with SoC at renowned cancer centres in the US (e.g. MD Anderson, Mayo, City of Hope); the Phase I CEP-2 trial (w doxorubicin in sarcoma – has ODD status) and Phase Ib/IIa DARRT-2 trial (external beam radiation in prostate cancer [mCRPC]). Active engagement with the US FDA and KOLs/centres in these fields is a notable achievement and validates the clinician interest in their VEYONDA programs. We await clinical readouts from these programs to determine their path forward.

VEYONDA's novel IP is in the formulation. Idronoxil, the active agent in VEYONDA, has a broad range of anti-cancer actions however the exact mechanisms driving cancer cell death remain unclear. Additionally, it is a known immuno-modulator. Idronoxil has been de-risked from a safety and tolerability perspective in prior Phase III studies (in an oral formulation), however its clinical development to date has been hindered by pharmacokinetics with very low oral or intravenous bioavailability owing to 1st pass metabolism. Noxopharm's IP relates to their proprietary formulation of idronoxil (as VEYONDA) in a suppository formulation which bypasses these drug metabolism challenges allowing bioavailable delivery of an active agent, in adequate quantities to fight tumour cells. Noxopharm hold all of the encompassing IP in relation to VEYONDA, its formulation and use in combination with other anti-cancer therapies.

Immuno-oncology (IO) approaches continue to grow in popularity and applicability. Broadly, IO has taken over as the dominant 1L treatment option in a multitude of cancers, often paired or adjunctive to chemotherapy. NOX's VEYONDA takes a novel approach to immune-modulation (i.e. is not a classical immune checkpoint inhibitor (ICI)) but rather modulates via innate immune system activation of natural killer cells. With the advent of high resistance to ICIs (>30%) the field continues to seek and require novel mechanisms to repeatedly attack tumours and induce tumour-fighting immune actions. This provides a unique and complimentary immune activation pathway to existing approved IO compounds with expected synergies present. The potential to expand the application and efficacy of anti-PD-1 blockbusters like Opdivo (US$7B/yr sales) – as being assessed in the IONIC trial - is strategically appealing to oncology players.

Preclinical program a platform for future value realisation. Noxopharm have recently established two preclinical platform programs; Chroma™ and Sofra™, to harness new drug lead candidates to progress into clinical programs. The Chroma™ platform is focused in cancer indications, and Sofra™ in the autoimmune space (i.e. Lupus, mRNA tolerability) with proprietary oligonucleotide technology. Recent data (Sept 22) of a Chroma identified candidate (CRO-67) showed impressive anti-tumour efficacy in an explant pancreatic cancer model supporting advancement. This pipeline derisks the NOX proposition with multiple "shots on goal" and additional value realisation options.

Valuation. Wilsons does not publish research on Noxopharm. No valuation or investment view is provided.

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Company

Immutep Limited (IMM)

Immutep | Leading the LAG-3 revolution

Recommendation OVERWEIGHT

12-mth target price (AUD) $0.91

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Investment thesis

We retain an OVERWEIGHT recommendation and $0.91 per share risked PT on Immutep. Immutep's clinical programs explore every therapeutic aspect of the immuno-oncology (IO) fields newest approved target, LAG-3. IMM's lead product Efti is currently being evaluated in Phase IIb and soon to be Phase III trials aiming to enhance and extend IO blockbusters including Merck's (MSD) Keytruda in large oncology indications (NSCLC, breast, HNSCC). A wealth of pharma partnerships explore utility of Efti and their other LAG-3 assets in oncology and autoimmune disease. We see a valuation disconnect between IMM and their opportunities in these markets with significant TAMs in metastatic cancers (non-small cell lung $8B, head & neck $2.2B, breast $2.3B) where unmet need is high and partnership with existing blockbusters (Keytruda) sets them up for an immediacy of clinical adoption with future approvals. Recent Phase II data in NSCLC (TACTI-002 trial) highlighted efficacy in a 1st line metastatic setting extending PFS by ~3 months (LFL vs current SOC) but also drew attention to the opportunity for Efti in 'reverting' a portion (~30%) of anti-PD-1 non-responders to responders saving them the requirement for aggressive chemo regimens, and delivering similar clinical outcomes with far inferior quality of life. Immutep now enter a planning phase for Phase III development in 1st line NSCLC with further optionality up their sleeve in HR+/HER2- breast cancer.

Key focus areas & valuation

LAG-3 is the newest IO target. FDA March approval of BMS' Opdualag, a fixed combination of Opdivo (anti-PD-1) and relatlimab (anti-LAG-3) marked the introduction of a 3rd approved IO target - LAG-3. The US$30B IO drug market (originating in 2011) has been supported by two IO drug target pathways with the expansion of targets to include LAG-3, being the first significant driver of IO market expansion in >7 years. Notably IMM have the most comprehensive and diversified LAG-3 portfolio across their four drug assets. With recent setbacks in alternate target programs (i.e. TIGIT) we assess heightened interest in LAG-3.

Efti's unique mechanism of action provides key benefits over pipeline competition. There are ~17 other LAG-3 directed assets in development by biotech/big pharma – a busy space. These assets use the same mechanistic approach as BMY's relatlimab - that is, a monoclonal antibody that inhibits surface expressed LAG-3 on T cells (or dual inhibition of LAG-3 + PD-1). This blocking mechanism is akin to blockbusters Keytruda and Opdivo. IMM's asset Efti, modulates LAG-3 in a unique and mechanistically complementary way to other checkpoint inhibitors. Efti does this by binding to a different cell type (antigen presenting cells (APCs)) via LAG-3's primary ligand MHCII, which stimulates a more wholesome and broad anti-cancer, immune response. Importantly this approach is novel in the field of 17 other similar LAG-3 programs, boosting its corporate appeal and potential ability to combat drug resistance – a key issue.

Efti de-risked to Phase II - can expand TAM of blockbusters. Efti presents a unique opportunity to solve for the key issue of acquired resistance (loss of response) to current anti-PD-1 drugs such as Keytruda and Opdivo. The ability to combine Efti's immune stimulatory effects with specific anti-PD-1 agents to reduce/revert PD-1 resistance would increase their applicable TAM (>25%) which is attractive to leaders in the space (MSD and BMY). Further, the ability to address the third of the market (in HNSCC, NSCLC) that lack PD-L1 expression using an Efti combo provides further TAM expansion for these market leading products. This also drives an immediacy of broad adoption at the time of market entry which few drugs are afforded. Importantly IMM have impressive Phase II data across 3 target indications supporting late stage (Phase III) progression, with a potentially approvable Phase IIb trial already underway in HNSCC (TACTI-003). Phase III planning continues in 1st line NSCLC & mBC, with NSCLC providing the largest option for IMM. Management appear aware and active in their pursuit of value additive partnerships with pharma.

Valuation. SOTP valuation from a real options DCF approach focused on the Efti asset. Our risked $0.91/sh PT comprises a) $0.30/sh for Efti in breast cancer; b) $0.53/sh for Efti in NSCLC via licensing; and c) $0.09/sh for Efti in HNSCC. No other assets in our current valuation. Unrisked valuation is $2.33/sh, noting we have previously assessed takeout valuations of $2-4B based on market predicates.

Figure 1. Phase II data (TACTI-002) 1L NSCLC shows Efti combo superior to SoC pembrolizumab irrelevant of PD-L1 expression status

	Efti + pembrolizumab (TACTI-002)		pembrolizumab (KEYNOTE-001)
PD-L1 subgroup	Proportion of cohort	ORR	ORR
n		114	147
All (unselected)	100%	38.6%	24.8%
<1% TPS (negative)	28%	28.1%	**10.7%**
1-49% TPS (low)	32%	**41.7%**	**16.5%**
≥ 50% TPS (high)	17%	52.6%	50.0%

ORR: Overall response rate. NSCLC: Non-small cell lung cancer. TPS: tumour proportion score.
Source: Immutep, Kang et al (2017).

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Company
Next Science (NXS)

Next Science | Switching models in woundcare

Recommendation	OVERWEIGHT
12-mth target price (AUD)	$1.80

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Investment thesis

We maintain our OVERWEIGHT rating and $1.80 per share price target on Next Science (NXS). The primary focus for the stock remains XPERIENCE which continued its independent, organic launch phase growing approximately 24% in 3Q22 (QoQ basis). Adoption and utilisation trends within US hospitals and surgical practice habits looks encouraging, albeit early days. Zimmer has commenced its early launch activities with an initial order in 3Q22. Although large partners often disappoint, Next's XBIO anti-biofilm technology is not new to Zimmer and complimentary to their BACTISURE business (adds a prophylaxis option for prosthetic joint infection). Efforts to rebuild BLASTX's distribution and market access took a new turn with Next establishing a Durable Medical Equipment (DME) business to service woundcare settings.

Key focus areas & valuation

3Q22. Sales of US$3.0M disappointed (WILSe:US$4.0M) and were lower than US$3.3M in 2Q22. We understand that within this XPERIENCE grew approximately 25% with steady improvement in surgeon and account access from Next's direct selling efforts. The first inventory shipments to Zimmer occurred in June with a subsequent order in September. Zimmer's initial sales campaign targets up to 500 hospitals in their orthopaedics business via 10 segment distributors. BLASTX sales appear disrupted by anticipated channel changes. By difference we conclude that BACTISURE sales were essentially flat on 2Q22.

DME strategy. Next has formed a DME structure to access woundcare settings, offering collagen dressings and their proprietary BLASTX wound gel (used concomitantly) for chronic wound treatment (diabetic foot ulcers, venous leg ulcers). Economically this makes sense, as unlike BLASTX, the use of collagen materials is eligible for reimbursement (through A codes provided by the CMS), which will therefore supplement the sales and marketing expenses associated with BLASTX. The larger opportunity will come from the development of their own collagen products (combined with BLASTX chemistry) in both powder and sheet forms (akin to Aroa's Myriad Matrix and Morcells products). The product will allow Next expanded access to the >US$1B chronic wound market. The DEM accreditation means that Next are licensed to bill Medicare/Medicaid directly and provide access to the inner-workings of the woundcare market. Being a DME allows control over reimbursement. A physician or podiatrist would send a prescription to Next (as a DME), and once a patient's insurance eligibility has been verified, the product is supplied to the physician. Profitability in the US woundcare setting faces additional pressure from 2024 when reimbursement changes will remove the ability to bill directly for specific, high value products (cell and tissue products). Expensive product classes in this category (such as those derived from amniotic tissue sources) are likely to fall out of favour. Providers will likely fall back on collagens or other relatively low-cost ECM matierials.

Valuation. PT of $1.80/share is premised on a DCF assessment. Implied 5.9x FY23e EV/sales multiple would place NXS towards the top end of US wound-care/surgical peer group (median valuation multiple 4.1x FY23e EV/revenue).

Financial summary (Y/E Dec, USD)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales ($m)	3.4	8.9	13.7	21.8	32.1
Consensus sales ($m)			16.4	31.3	52.5
EBITDA norm ($m)	(11.5)	(8.7)	(8.6)	(1.7)	3.9
NPAT norm ($m)	(11.9)	(9.3)	(9.6)	(2.9)	2.6
EV/Sales (x)	34.5	14.2	9.2	5.9	4.0
EV/EBITDA (x)	n/m	n/m	n/m	n/m	32.6

Source: Refinitiv, Wilsons estimates.

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Company
Aroa Biosurgery (ARX)

Aroa Biosurgery | Aroa's bio-diversification

Recommendation	OVERWEIGHT
12-mth target price (AUD)	$1.50

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Investment thesis

We maintain our OVERWEIGHT rating on Aroa Biosurgery with a PT of $1.50 per share. Following their 2Q23 update, Aroa upgraded the lower end of their guidance to NZ$53-55M (from NZ$51-55M) with total FY23 revenue guidance (including Fx benefits) lifted to NZ$62-64M. Aroa's strength is driven by the flagship OviTex portfolio taking market share in hernia and breast reconstruction and their direct product, MYRIAD, expanding gross margin. Aroa's MYRIAD Morcells powder product continues to resonate with surgeons, driving the expansion of the Myriad portfolio, with the addition of a fine powder variant. Their Symphony product is also now set to formally launch in early 2023 which will take advantage of reimbursement coding benefits taking effect in CY23. The product sits at a discount to competitors which will appeal to physicians seeking to retain profits, however represents 4.5x the value of the Myriad line for Aroa. Their dead space management platform ENIVO is also set for FDA filing set by end of November.

Key focus areas & valuation

Aroa continue to lead the wound care diversification story. Wound care became a hot new sub-sector a few years ago with ASX wound care players PNV and AVH garnering the attention of many investors. With ARX coming into play in 2020, it was easy to assume they too would exist in and compete for share in the same market. However, 2 years on, ARX has managed to do what the others haven't – expand out of the original indications (burns, chronic wounds) into the more lucrative soft tissue reconstructive market (hernia, breast). FY23e is therefore positioned to demonstrate the growth trajectory of Aroa, particularly with their MYRIAD and SYMPHONY products with the US sales team recruited and generating strong rep productivity signals.

MYRIAD and SYMPHONY. Aroa's MYRIAD is on track to exceed expectations, generating NZ$5.6M in 1Q23. The addition of the fine powder Morcells product will look to gain further market share in higher value cases alongside Myriad Matrix, particularly from their competitor Integra. Although Aroa's has rightly focused on larger inpatient cases, we see the portfolio finding new opportunities in outpatient settings, particularly podiatry where the withdrawal of human amniotic matrices from the market. We also expect reimbursement changes could favour the combination of MYRIAD and SYMPHONY, which should have marked benefits for Aroa, given their ability to cross leverage sales of MYRIAD and SYMPHONY through their existing 35-person, direct sales force.

ENIVO launch 2 years ahead of expectations. Aroa recently announced results from their pre-clinical study for their new dead space management platform, ENIVO. With FDA submission planned by end of November, revenue contributions are expected from CY 2024. The addition of ENIVO will allow Aroa access to ~US$2B opportunity, which largely exists in markets they have relationships in – hernia, breast and trauma. This should allow them to leverage cross-selling functionalities largely with existing relationships, particularly those established with OviTex.

Valuation. Price target is revised to $1.50 per share with reference to DCF (NZ$1.71 per share) and review of domestic and US listed peers (peer median 3.7x EV/Revenue with a range of 2-10x). Investment thesis contends that ARX recaptures its valuation premium, given: a) 3-year revenue CAGR (35% is triple the sector median); b) outlook for gross margin expansion (FX, mix); and c) proximity to profitability without recourse to additional equity funding. Longer term outlook supports valuations > $2 per share over the next four years.

Financial summary (Y/E Mar, NZD)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales (NZ$m)	21.6	39.2	59.6	75.1	95.7
Consensus sales (NZ$m)			55.1	71.1	95.7
EBITDA norm (NZ$m)	(4.5)	(5.5)	(6.1)	5.6	14.2
NPAT norm (NZ$m)	(7.6)	(8.8)	(9.4)	1.5	8.2
EV/Sales (x)	13.6	7.5	4.9	3.9	3.1
EV/EBITDA (x)	n/m	n/m	n/m	52.0	20.6

Source: Refinitiv, Wilsons estimates.

WILSONS

Company
Nanosonics (NAN)

Nanosonics | Taking the contrarian troph-y

Recommendation	OVERWEIGHT
12-mth target price (AUD)	$5.50

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Investment thesis

We maintain our OVERWEIGHT rating on Nanosonics with a PT of $5.50 per share. Nanosonics confirmed a solid FY22 result and provided confident guidance for FY23 across revenue, gross margin and EBITDA lines. The company's FY23 guidance for 20-25% revenue growth should go some way to dismantling the idea that assuming more direct control over its US Capital business was somehow a bad idea in 2022. The restructured arrangement actually provides Nanosonics with more pricing levers to drive fresh adoption of trophon in both new and existing accounts, which is why the outlook for US installed base additions is back up. It also provides unfettered access to a 9,000+ unit upgrade pipeline that can be executed directly (rather than waiting for a partner to 'get around to it'). The CORIS project also firmed up, marginally, with more detail provided on regulatory pathway and launch sequence. That product's proximity to launch (CY23) comes with near-term cost impost that outweighs the revenue improvements from upgrades. The short interest in NAN now hangs on the prospects of a small, under-capitalised competitor doing something dramatic in the US market next year.

Key focus areas & valuation

AuditPro's stealth role in embedding trophon for ultrasound HLD. NAN was at pains to describe AuditPro's primary interface with multimodal ultrasound systems. In a direct sense, AuditPro is monetised via SaaS subscription ($5K over 5 years) delivering compliance/audit data for quality and accreditation purposes. Indirect consequences may include: a) added impetus for hospitals to upgrade from trophon EPR to trophon2 (T2); and b) increased Sonex utilisation by promoting stricter adherence to HLD guidelines (in particular, those relating to surface probe reprocessing). AuditPro is compatible with T2, and by extension, electronic hospital records for traceability. This potentially embeds a workflow-driven preference for T2 within hospitals, in the event that other automated HLD systems emerge as competitors.

AGM update could finally debunk the post-GEHC 'sky is falling' thesis. NAN's AGM is 18th Nov and is likely to provide a business update. The motivating factors behind Nanosonics' drive to relegate GEHC to a pass-through OEM this year were pricing flexibility and freedom to execute on upgrades at will. In prior years, channel conflict with GE had stymied price increases within incumbent accounts and flexibility in attracting new accounts. Separately, NAN have 9,000 upgrade targets to convert. We assess 1-2K per annum as reasonable (500 upgrades in 2H22).

CORIS. Over the years we've collected a war-chest of CORIS-related, unpublished research related to reprocessing flexible endoscopes including: a) Nanosonics' patent specifications to form a sketch of the CORIS technology including its anti-biofilm claims; b) TAM estimates across gastroenterology, urology and bronchoscopy; c) the role for disposable, single-use endoscopes; and d) the regulatory perspective including high-level disinfection guidelines and FDA Safety Communications relating to endoscope redesign and reprocessing techniques (HLD, ethylene oxide, automated reprocessing units). The emergence of CORIS next year is a major catalyst.

Valuation. Based on DCF of the international trophon business ($5.00/sh) plus a nominal valuation for CORIS and other pipeline platforms. Note: trophon DCF assumes a gradual progression towards a terminal EBITDA margin of ~40%. Our CORIS valuation has moderated from $2.00/sh in prior work to $0.50/sh per share given its adequate to maintain an OVERWEIGHT rating, which we believe is the right 'call' on the stock at this point in time.

Financial summary (Y/E Jun, AUD)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales ($m)	106.0	120.3	148.2	162.5	185.5
EBITDA norm ($m)	15.2	7.5	13.3	17.2	25.6
Consensus EBITDA ($m)			14.7	22.8	34.0
NPAT norm ($m)	8.6	3.7	7.0	9.1	14.9
EV/Sales (x)	9.1	8.0	6.5	5.9	5.2
EV/EBITDA (x)	63.2	n/m	72.4	55.9	37.5

Source: Refinitiv, Wilsons estimates.

WILSONS

Company
SomnoMed (SOM)

SomnoMed | CPAP had better watch out!

Recommendation	OVERWEIGHT
12-mth target price (AUD)	$2.40

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Investment thesis

We upgrade our rating on SomnoMed to OVERWEIGHT maintaining our $2.40/sh price target. SomnoMed's unveiling of their new technology-enabled oral appliance, Rest Assure®, gives us confidence in the growth outlook for the US business which has been underpenetrated in the past. The ability for SOM to provide daily efficacy, and most importantly compliance data, will finally allow for objective comparisons of treatment effectiveness between CPAP and OAT in mild-moderate sleep apnoea patients and a way for clinicians to track their patients care longitudinally. This has been a significant historical barrier to OAT adoption and now, sets SomnoMed apart. The US sleep market must process a significant structural change with a major CPAP manufacturer (Philips/Respironics) embroiled in a long and worsening device recall. It would seem fortuitous timing to launch a 'connected care' enabled oral appliance into that market. We model significant contributions from 2H24e for Rest Assure®. SomnoMed is well set up for supporting SP catalysts in the coming 12 months including trial data publications and regulatory approval/s. Once SaaS is unlocked with Rest Assure, we expect SomnoMed's data capture should see the technology remain sticky with physicians and patients driving rapid, predictable revenue.

Key focus areas & valuation

New connected device. SomnoMed's Rest Assure® features on-board patient monitoring and cloud-connected data feedback. This is truly transformational to Oral Appliance Therapy (OAT) in sleep apnoea management. For the first time, patients and clinicians have on-demand access to compliance and efficacy data on a nightly basis. Such connectivity and data feedback was revolutionary to ResMed's CPAP business for two reasons. Firstly, it led to significant improvements in patient-level treatment compliance and changed sleep physician prescribing habits for 'brand-specific' referrals. Second, it reduced the cost of delivering care for Home Medical Equipment (HME) customers, providing an incentive to favour ResMed's CPAP devices. In many ways Rest Assure® emulates ResMed's AirView (for physicians, HMEs) and MyAir (for patients) solutions. We assess this can be as impactful to OAT adoption, particularly in USA, with up to 1% of CPAP OSA market share on offer in our view (+27k devices/yr).

Outlook on FY23. SomnoMed's 1Q23 revenue of $18.6M was in line (WILSe: $18.4M). In the USA, the incremental contribution from CPAP unavailability (Philips/Respironics Class 1 recalls) has likely strengthened as a theme for the balance of FY23e and into FY24e, noting US sales growth of 44% in 1Q23. This un-planned but welcome exposure to US sleep physicians is timely with the 'connected care' RestAssure® platform nearing regulatory filings. The recall impact is harder to confirm in Europe but a probable reason why high growth rates are being sustained in the heartland markets like Netherlands and Nordics (where therapy share has been 30-50% for years, pre-pandemic and pre-recall). 1Q23 results consistent with FY23 guidance of 20% revenue growth and at least $2M EBITDA.

Valuation. Our PT remains at $2.40/sh set below fundamental DCF valuation of $3.40/share owing to a liquidity discount and FY23e EBITDA consensus downgrades weighing on magnitude of absolute share price upside in the near-term. Maintain O/W with positive catalysts into FY23.

Financial summary (Y/E Jun, AUD)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales ($m)	62.7	72.6	85.8	95.3	107.3
EBITDA norm ($m)	3.9	1.3	1.8	11.7	14.5
Consensus EBITDA ($m)			2.1	8.5	11.6
NPAT norm ($m)	(0.8)	(3.9)	(3.7)	4.8	6.5
EV/Sales (x)	1.5	1.5	1.3	1.1	1.0
EV/EBITDA (x)	24.9	82.4	62.1	9.4	7.2
P/E (x)	n/m	n/m	n/m	24.2	17.9

Source: Wilsons' estimates, Refinitiv

WILSONS

Company
ImpediMed (IPD)

ImpediMed | NCCN build-up

Recommendation	OVERWEIGHT
12-mth target price (AUD)	$0.30

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Investment thesis

We maintain our OVERWEIGHT rating and $0.30 price target on ImpediMed. Our strong price target and implied >200% TSR could suggest a stale valuation to some; but this is not the case. The discrepancy between our valuation and the prevailing market price boils down to one issue: that ImpediMed's PREVENT trial data secures NCCN guideline inclusion. If we're right, ImpediMed's SOZO business should accelerate dramatically because private payers will face a lot of pressure to bring coding and payment for L-Dex testing into line with Medicare. If we're not, ImpediMed will press ahead with alternative strategies but that will take years longer to achieve equivalent coverage. The current share price is obviously opting for the latter scenario and ImpediMed perpetuating its reputation for being a 'serial capital raiser'. Our positive call on this situation has technology on its side with materialisation of a positive NCCN outcome by year-end.

Key focus areas & valuation

NCCN or bust for L-Dex in 2023. NCCN guideline inclusion for ImpediMed's bioimpedance spectroscopy (BIS) is the only situation that can support our forecasts and valuation outlook; fast-track private payer reimbursement coverage by years, leading to rapid, widespread adoption of SOZO for the assessment of breast cancer related lymphoedema (BCRL). Sensibly, the company has been pursuing several NCCN-independent strategies in parallel. The company's 'Case Assistance Program' reports good success rates in challenging insurance denials, seeking to create a 'domino effect' in luring larger reimbursement pools into declaring coverage policy.

BIS's SaaS model should deliver profits for its customers. We understand that current usage is essentially on a cost-benefit assessment: the cost of ownership (SOZO SaaS subscription fees) is outweighed by patient outcomes (costs incurred by managing irreversible lymphoedema) + reimbursements (where available). If IPD is successful in accessing widespread reimbursement (the elusive catalyst), providers are likely to then see SOZO testing as a profit centre. The decisions providers are making today on risk (who is a high/low risk – who gets offered SOZO) is not backed by evidence. ImpediMed's PREVENT trial showed an unequivocal benefit for BIS which should change the current standard of care (tape measure) which triggers false positives early and missed all longer-latency cases of lymphoedema.

Stair-step pricing will support modest revenue wins in FY23. IPD's stair-step pricing model is based on pricing increases as customers enter year 2 and 3 of their contracts, applicable to both new and, existing contracts up for renewal. In 1Q23 IPD achieved an average 38% monthly license fee increase (up from Q422). This demonstrates a 33% growth in ARR by 1Q24 (from $8.2M to $10.9M), without selling another SOZO unit. The company report no pushback on pricing increases thus far.

Valuation. Our $0.30 PT is a risked DCF comprising explicit forecasts for SOZO in lymphoedema and renal failure only (70% and 40% probabilities, respectively). IPD does not screen as particularly 'cheap' with EV/Revenue well above the small-midcap med/health-tech sector median (15.4x versus 10.2x on FY23e basis). Valuation depends on NCCN-driven ramp in revenue obviating the need to raise additional capital.

Financial summary (Y/E Jun, AUD)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales ($m)	8.4	10.6	16.0	26.6	49.8
Consensus sales ($m)			19.9	34.1	
EBITDA norm ($m)	(18.9)	(17.1)	(13.1)	(8.2)	3.9
NPAT norm ($m)	(20.7)	(19.9)	(15.9)	(11.7)	0.2
EV/Sales (x)	12.1	7.6	6.0	4.1	2.3
EV/EBITDA (x)	n/m	n/m	n/m	n/m	29.3

Source: Wilsons' estimates, Refinitiv.

WILSONS

Company

Neuren Pharmaceuticals (NEU)

Neuren Pharmaceuticals | Getting close

NOT RATED

Company summary

We do not formally cover Neuren Pharmaceuticals (NEU). Neuren is a clinical stage biotech company focused on development of their two lead candidate drugs across six neurodevelopmental indications: Trofinetide (Rett syndrome, Fragile X) and NNZ-2591 (Angelman, Prader Willi, Pitt Hopkins, Phelan-McDermid syndromes). Trofinetide has completed successful US Phase III trials in Rett Syndrome (via US licensee partner Acadia Pharmaceuticals), and currently awaits an FDA approval decision (PDUFA: 12 Mar 23) marking the first potential approved treatment for this rare condition. Neuren's NNZ-2591 asset is meanwhile being evaluated in four Phase II studies with clinical readouts across 2023. Neuren now have optionality on ROW development and commercialisation (notably EU & Japan) for Trofinetide with new potential licensing deals to recognise additional value for shareholders in the near to medium term. Meanwhile investors are likely to reap the benefits of a new US drug launch toward CY23 year end (in milestones + sales royalties) provided FDA approval is granted in ~5 months' time.

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Key focus areas

Novel chemistry unlocks brain penetrance and bioavailability of brain analogues. Neuren's assets focus on modulation of IGF-1 (an essential brain growth factor) influencing downstream neuronal processes. Each asset is a synthetic analogue of naturally occurring brain signalling molecules. Importantly NEU have unlocked the chemistry which allows these otherwise challenging peptides to cross into the brain and be orally bioavailable – a mighty feat. Mechanistically, IGF-1 signalling is critical in normal brain functioning, development and response to injury/disease. Modulation of this pathway (using NEU's drug assets) in neurodevelopmental syndromes can restore "normal" functioning via anti-inflammatory actions, IGF-1 level normalisation, impacts on microglia (key immune cells of the brain) and via improving the architecture of neurons and their connectivity. Neuren have built an IP portfolio around the application of these chemically modified synthetic analogues in a range of diseases. The broad ranging actions of these assets in the brain supports their diverse potential applicability across a multitude of neurological indications.

A focus on rare, untreated neurodevelopmental disorders with shared symptomatology, creates large combined TAMs. Neuren's clinical program spans six indications, all of which are defined as rare neurodevelopmental disorders or syndromes which lack approved treatments. There are well known benefits of a rare disease strategy; namely, expedited development and/or review processes, limited competition, higher pricing and reimbursement, as well as potential benefits/incentives such as Priority Review Vouchers (PRVs) which may provide a source of financial support (~US$100M) for development/ commercialisation. On the flip side, development in rare conditions often means there are no predicate benchmarks for marketing approvals making pivotal trials more challenging. The ability to leverage the broad mechanism of action of NEU's drugs allows for the potential expansion into numerous other neurodevelopmental indications with shared symptomatology leads to a much larger TAM than a rare disease focus may imply.

Imminent FDA decision for US market entry in late 2023. Neuren's trofinetide asset is currently under FDA priority review in Rett Syndrome with a PDUFA date set for 12 March 2023. This has been submitted by Neuren's licensee, Acadia Pharmaceuticals (NASDAQ: ACAD), that holds exclusive US distribution rights to trofinetide. Neuren retains the ROW rights. FDA approval and subsequent commercialisation of trofinetide in CY23 could realise a US$40M milestone payment in addition to double-digit net sales royalties for NEU (further US$350M milestones available). Further, granting of a PRV at the time of approval could provide a further ~US$33M to NEU if sold, based on average market pricing of their 1/3rd share. Importantly, this capital inflow can support their ongoing NNZ-2591 trial programs as well as ROW trofinetide development activities, de-risking their progression strategy. Prevalence estimates suggest an addressable population of ~10,000 Rett patients in the US market, (~4,500 of them diagnosed and seeking treatment) with a further ~300,000 globally with no current treatment options.

Valuation. Wilsons does not publish research on Neuren Pharmaceuticals. No valuation or investment view is provided.

WILSONS

Company

Antisense Therapeutics (ANP)

Antisense Therapeutics | Calming the inflammatory storm

Recommendation	**OVERWEIGHT**
12-mth target price (AUD)	$0.36

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Investment thesis

We retain an OVERWEIGHT rating on Antisense Therapeutics (ANP) with a risked PT of $0.36 per share. ANP's lead asset, ATL1102, has a significant opportunity in Duchenne Muscular Dystrophy (DMD) disease management in our view, with market dynamics that are supportive of execution for a small biotech (rare disease, limited patient size, favourable pricing, expedited path). Recently, funding constraints have led ANP to reconfigure their clinical trial aspirations for ATL1102 in the treatment of non-ambulant DMD. Rather than launch into a registration-directed Phase IIb/III trial in non-ambulant DMD that is not fully funded, the company will proceed with a smaller Phase IIb study to bolster its proof of principle claims with randomised, controlled data (trial start in 4Q CY22). Whilst this change sets back European commercialisation by ~2 years, it offers a clearer 'readthrough' on ATL1102 efficacy (at two different doses) within current funding capacity. This pathway, whilst likely delaying commercial market entry brings partnering optionality into consideration earlier. A hard data-readout is planned for 1Q24. We continue to see the significant opportunity for ATL1102 in DMD, with their forward trial campaign strategy as appropriate given market current conditions.

Key focus areas & valuation

DMD trial revision. ANP have outlined a new Phase IIb trial design to replace the previous Phase IIb/III trial in Europe. This will enrol 45 non-ambulant patients to evaluate ATL1102 at two doses (25mg and 50mg) versus placebo over a 6-month treatment window followed by a 6-month open-label safety and follow up phase. Importantly by 1Q'24 ANP will be in a position to unblind the data and report on efficacy versus placebo; a key catalyst for the stock. We view the pathway as then proceeding to a pivotal Phase III trial at a selected efficacious dose facilitating EU market entry in ~FY27e. The potential to incorporate US sites into a global Phase III pivotal following their current Phase IIb trial is also a possibility opening up the potential for dual market access sooner.

Rare disease opportunity attractive. DMD is a rare disease with very limited approved options. ANP have both Orphan drug and Rare Paediatric Designations from the FDA for ATL1102 providing expedited review optionality as well as for valuable Priority Review Vouchers. Limited agents are being evaluated in non-ambulant DMD populations versus ambulant (~50% of total DMD), with key programs including gene therapies from Pfizer and Sarepta actively excluding non-ambulant boys. The few competitor agents in non-ambulant development, including CAP-1002 and pamrevlumab, when contrasted to ATL1102 data, lack superiority.

DMD lacking treatments; expansion potential into ambulant population. Whilst we model ATL1102's opportunity in DMD exclusively in the non-ambulant population we assess a clear expansion opportunity into the ambulant cohort as a follow on. Mechanistically ATL1102 is likely to confer similar benefits to earlier progression DMD patients that have yet to lose ambulation given the present dysregulation of CD49d (ATL1102's target). This is further supported by some biomarker/gene data correlating ATL1102's involvement in ambulation (via modulation of LTBP4 and THBS1). Expansion of the ATL1102 opportunity outside of non-ambulant patients has the potential to add >50% to our current peak sales estimates (WILSe: A$900M).

ATL1102 complementary to existing options. The anti-inflammatory mechanism of ATL1102 we assess is complementary to existing approved treatments (i.e. corticosteroids, exon-skipping therapies, gene therapies) and is likely to be utilised as part of multi-pronged treatment approach and therefore we view the cannibalistic nature of new exon-skipping or dystrophin-restoring gene therapies as low. Control of the inflammatory component of DMD, in a manner that is tolerated (unlike corticosteroids), remains key to symptom and disease management.

Valuation. Our $0.36/share PT is based on a SOTP real options DCF analysis which comprises; a) $0.24/sh for the ATL1102 opportunity in Europe, and b) $0.08/sh for ATL1102 in USA – both related to the non-ambulant DMD indication only. Our un-risked valuation is $1.00/share. Valuation upside presents with expansion of the addressable market into ambulant populations.

WILSONS

Company
EBR Systems (EBR)

EBR Systems | Leading with the left

Recommendation	**OVERWEIGHT**
12-mth target price (AUD)	$1.50

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Investment thesis

We maintain our OVERWEIGHT rating and $1.50 PT on EBR Systems. EBR's stock has suffered amid this year's macro-driven corrections, alongside most other listed, pre-revenue entities with large clinical development projects. EBR has pressed ahead, enrolling its pivotal trial (SOLVE-HF) and investing in market development for the WiSE system. WiSE is the only device in development offering leadless biventricular pacing. It extends the cardiac rhythm management market by offering a solution for the 30% of patients who are untreatable using conventional cardiac devices that place electrical leads inside the heart. Global peers (MDT and ABT) are developing 'leadless' pacemakers for the right side of the heart, only. MDT and ABT's success create an uncontested upgrade market for WiSE pacing. Last month, EBR issued a Technical Notice in relation to WiSE. We understand that the root cause has been identified and is resolvable by a change in material for one component. No patients have suffered any adverse safety consequences from this technical issue. PMA submission, initially planned for immediately post clinical data readout (~1H23) will be delayed into 2H23 as EBR prepares required additional manufacturing design module data.

Key focus areas & valuation

SOLVE-CRT interim recruitment target met in July. EBR's SOLVE-CRT study has reached its interim enrolment target of 75 patients. As a reminder, the primary efficacy endpoint is evaluable at 6 months post- implantation. EBR's SOLVE-CRT trial is being conducted under a revised Investigational Device Exemption (IDE) with two parts: a) a randomised controlled component (n=108) where only half the patients have the device switched on; and b) a prospective, single-arm phase (n=192) where all patients have an active implant. EBR will continue to enrol patients to maintain continuity with participating centres.

A pre-specified interim analysis is evaluable in early 2023. SOLVE-CRT's clinical goals are clear. The safety criterion is that ≤30% of cases must be free from major complications. We understand that this is powered at 80% for an anticipated safety population of 183 patients. The primary efficacy endpoint is a ≥9.3% reduction in left ventricular end systolic volume (LVESV, an objectively measured marker of the heart's reverse remodelling after successful therapy). We understand that this endpoint is powered at approximately 95% in an anticipated efficacy population of 100 patients (75 from single arm and 25 matched patients from the RCT component). Interim results should be available very early in 2023, enabling FDA submission and PMA approval in 2024.

Totally leadless movement in rhythm management evolving. Leadless pacemakers from MDT and ABT are growing the opportunity for EBR's WiSE-CRT. A subset of those patients will develop the need for leadless biventicular pacing. MDT's Micra™ platform (VR single-chamber pacemaker and AV device indicated for treating patients with atrioventricular block) leads the category with ~US$500M annualised sales. Abbott's Aveir™ VR device launched recently and is taking market share primarily from conventional, lead-based systems. Future category growth will come from the availability of dual-chamber leadless devices to expand indications, pacing both right atrium and right ventricle. We assess that the leadless pacemaker market creates a US$400M TAM for WiSE comprising a mix of upgrades and de novo implants.

Valuation. We have risked our $1.50/CDI target using discrete probabilities of clinical trial success (65%) and of commercial meeting or exceeding our forecasts (75%, if approved). Un-risked DCF is $2.35. M&A valuation scenarios suggest $2.50-$3.45 per CDI. Underlying WiSE-CRT (2025) TAM estimate (US$1B) is split between two main categories: a) situations where conventional leads cannot or are not used (anatomical obstructions or high-risk patients); and b) patients where a conventional lead has been placed but is providing no benefit. Another US$400M in TAM stems from completely leadless CRT. Adding conduction system solutions (left bundle branch area pacing) for atrial fibrillation and bradycardia can expand the WiSE TAM closer to US$2.5B.

WILSONS

Company
Opthea (OPT)

Opthea | Eyes on the prize now

Recommendation	OVERWEIGHT
12-mth target price (AUD)	$1.50

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Investment thesis

Our $1.50 per share and an OVERWEIGHT position is based on the trading opportunity as Opthea head toward a readout of their two Phase III registrational trials of OPT-302 in neovascular age-related macular degeneration (nAMD). Updates to our model following OPT's recent capital raise (US$90M dilutive equity + up to US$170M non-dilutive private equity investment) and movements in potential BLA filing and approval dates reduced our fundamental valuation by 16% to ~$0.90 per share (with the chunky PE pay-away reducing total shareholder opportunity). We continue to see significant corporate appeal of OPT-302 in the retinal landscape for an acquirer to insulate blockbuster franchises facing new entrants and biosimilars. We see potential value to be captured within the next 12-18 months in the lead up to ShORe and COAST readouts, with OPT's funding risk now removed. Our O/W call premised on a trading opportunity.

Focus areas & valuation

Financially de-risked headed into 2024 Phase III trial read-outs. Opthea's recent announcement securing funding through to commercialisation of OPT-302 in nAMD was a positive outcome, noting that the dilutive component of the raise (US$90M) was less impactful to SOI than in our estimates (~85M share benefit). This was counterbalanced by the 7% net sales royalty to Carlyle/Abingworth in exchange for up to US$170M in non-dilutive funding, with royalties capped at 4x the funding amount (max US$680M paid). Timeline discussions at the conference did suggest a further 6-month delay in trial readouts versus our prior understanding however (end CY23 to mid CY24), noting that COVID had detrimental impacts to recruitment rates.

Peak sales estimate for OPT-302 is US$3B. We estimate ~300K new nAMD diagnoses in USA of which 25% make good candidates for OPT-302 (after excluding for refractory pathology, age, resistance to intravitreal injections (IVT) or physician/insurer preference for off-label bevacizumab). We estimate a continuing treatment population of 375K patients in the US noting a high attrition rate from low response rates to anti-VEGF-A therapy, aversion to IVT, blindness and/or death. We model OPT-302 as a 2nd/3rd line agent and adjunct to anti-VEGF-A agents in maintenance treatment. The goals of OPT-302 treatment include optimizing initial therapy responses, addressing persistent fluid breakthrough, durability (extending the interval between anti-VEGF-A injections) and/or preventing the further deterioration of visual acuity (stability).

Retinal disease markets retain their fascination for investors. OPT-302's potential partnering scenarios always a driver. Both Roche and Regeneron have reported 3Q22 revenues with strong growth in their retinal lead drugs. Regeneron's EYLEA achieved sales of US$1.63B (+11% v pcp) and Roche's newcomer VABYSMO ~US$268M sales in the first 8 months on the US market, with ~70% of sales coming from EYLEA switches. REGN is busy experimenting with high dose EYLEA options to insulate that franchise, whilst LUCENTIS takes a hit from biosimilar entry as both are cannibalised to some extent by VABYSMO. OPT's approach is complementary to market leaders and their franchises, with others (i.e. Kodiak) only focused on chasing durability and not visual acuity improvement unlikely to be of strategic appeal. OPT has this in spades, pending PIII data.

Valuation. We recently upgraded our PT to $1.50/sh based on de-risking of Opthea's Phase III nAMD program to 100% as we expect the share price to trade positively into this trial readout. We note this is a trading idea only, with our fundamental real options valuation (keeping clinical trial risk intact for their nAMD program) revised to $0.90 per share. Our risked valuation does not include OPT-302's DME or RVO opportunities, which a strategic acquirer would value.

Financial summary (Y/E Jun, AUD)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales ($m)	0.0	0.0	0.0	0.0	48.9
EBITDA norm ($m)	(44.8)	(99.3)	(144.0)	(124.9)	(27.8)
Consensus EBITDA ($m)			(98.8)	(93.0)	(61.2)
EPS norm (cents)	(14.2)	(26.4)	(24.7)	(21.2)	(4.5)
EV/Sales (x)	n/m	n/m	n/m	n/m	5.9
EV/EBITDA (x)	n/m	n/m	n/m	n/m	n/m

Source: Refinitiv, Wilsons estimates.

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Recommendation structure and other definitions

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