

BEAM ON in Wisconsin

We maintain our OVERWEIGHT rating on Clarity Pharmaceuticals and risked price target of \$1.22/sh. The company's ^{67}Cu manufacturing partner (NorthStar Medical Isotopes; NSMI) held a site tour last week in Wisconsin. We attended to validate progress and to discuss matters of purification, yield, supply chain and regulatory pathways. ^{67}Cu has been the rate limiting step preventing the broad translation of the $^{64/67}\text{Cu}$ 'perfect theranostic pair' for theranostic development. Whilst volumes are modest and there is COGS optimisation to come, NSMI's reduction to practice of photonuclear production using electron accelerators is a major milestone. The arrival of ^{67}Cu as commercial (rather than research) isotope increases the value of Clarity's sarcophagene (SAR) conjugation chemistry.

Key points

The physics of ^{67}Cu production now an engineering reality. Based in Beloit (Wisconsin), NSMI has built an impressive capability to produce ^{99}Mo , ^{67}Cu and ^{225}Ac . We understand that approximately US\$120M has been invested to date, with a third, ^{225}Ac -dedicated module nearing completion. NSMI has recently broken ground on an adjoining property, allowing expansion to at least eight electron accelerators (Rhodotrons), enough to service the US market. In the case of ^{67}Cu , the engineering challenge of performing a novel, photonuclear reaction at scale is now validated. Briefly, the rhodotrons accelerate electrons to produce and direct high energy gamma rays, bombarding a solid, highly purified (98.97%) ^{68}Zn target. The rhodotrons supplied by Belgian manufacturer IBA are thus 'Beam On' and producing. The ^{67}Cu is recovered by dissolving irradiated targets in hydrochloric acid and using chromatographic (chelation) techniques to achieve high radiochemical yields. Production scale is modest and challenges remain from a COGS perspective. Highly purified ^{68}Zn targets are expensive but are available from several providers. ^{68}Zn pricing is expected to fall as demand increases with the desire for cyclotron-produced ^{68}Ga being another reason to scale up global supply. Our conversations with targetry suppliers at SNMMI confirmed as much. NSMI is working to optimise its on-site processes for capturing and recycling un-converted ^{68}Zn material. Interestingly, the reclaimed ^{68}Zn targets that NSMI prepares on-site increase in purity over time because trace impurities (metals) are stripped out over successive separation runs.

SECuRE radioligand therapy (RLT) progress abuzz. Investigators involved with Clarity's ^{67}Cu SAR-bisPSMA program brought unique perspectives, with years of clinical trial (VISION, PSMAfore, PSMAAddition Phase IIIs) and real-world PLUVICTO therapy experience under their belts. There is a consensus view that PLUVICTO's ability to drop PSA levels sharply and profoundly (by at least 50% if not 75%) correlates with survival outcomes and argues strongly for the earlier deployment of RLT in prostate cancer. Having witnessed deep responses to Clarity's 4GBq dose, Pls are excited to see what comes from dosing at 8GBq and 12GBq over coming months, noting, PLUVICTO is dosed at 7.4GBq. Theoretically, Clarity's Pls are pointing to the agent's 2-3x tumour uptake and longer half-life as key differentiating features.

Forecasts & valuation. Changes reflect post 1H23 model maintenance only. Risked SOTP valuation of \$1.22/sh comprises a) prostate \$1.01/sh; b) Neuroblastoma \$0.11/sh; and c) NETs \$0.10/sh. No value currently attributed to breast cancer. Unrisked PT \$4.45/sh. Positive clinical readouts over next 6-9 months de-risk valuation by 15% to \$1.40/sh.

Financial summary (Y/E Jun, AUD)	FY21A	FY22A	FY23E	FY24E	FY25E
EBITDA norm (\$m)	(10.2)	(23.8)	(22.6)	(26.5)	(44.9)
Consensus EBITDA (\$m)			(28.0)	(34.9)	90.6
EPS norm (cents)	(5.8)	(9.8)	(8.5)	(10.2)	(14.1)
EV/EBITDA (x)	n/m	n/m	n/m	n/m	n/m

Source: Company data, Wilsons estimate, Refinitiv, IRESS.
All amounts are in Australian Dollar (A\$) unless otherwise stated.

Wilsons Equity Research

Analyst(s) who owns shares in the Company: n/a Issued by Wilsons Advisory and Stockbroking Limited (Wilsons) ABN 68 010 529 665 – Australian Financial Services Licence No 238375, a participant of ASX Group and should be read in conjunction with the disclosures and disclaimer in this report. Important disclosures regarding companies that are subject of this report and an explanation of recommendations can be found at the end of this document.

Recommendation	OVERWEIGHT
12-mth target price (AUD)	\$1.22
Share price @ 3-Jul-23 (AUD)	\$0.73
Forecast 12-mth capital return	67.1%
Forecast 12-mth dividend yield	0.0%
12-mth total shareholder return	67.1%
Market cap (\$m)	189.3
Enterprise value (\$m)	96.9
Shares on issue (m)	259.3
Sold short (%)	0.0
ASX All Ords weight (%)	0.0
Median turnover/day (\$m)	0.2

Dr Melissa Benson

melissa.benson@wilsonsadvisory.com.au
Tel. +61 2 8247 6639

Dr Shane Storey

shane.storey@wilsonsadvisory.com.au
Tel. +61 7 3212 1351

Madeleine Williams

madeleine.williams@wilsonsadvisory.com.au
Tel. +61 3 9640 3834

12-mth price performance (\$)



	1-mth	6-mth	12-mth
Abs return (%)	(0.7)	(26.5)	46.9
Rel return (%)	(1.4)	(27.7)	38.4

Key changes	14-Feb	After	Var %
EBITDA FY23E	(23.9)	(22.6)	5%
norm FY24E	(26.5)	(26.5)	0%
(\$m) FY25E	(44.9)	(44.9)	0%
EPS FY23E	(9.9)	(8.5)	14%
norm FY24E	(11.0)	(10.2)	8%
(cents) FY25E	(15.1)	(14.1)	6%
Price target	1.22	1.22	-0%
Rating	O/W	O/W	

Business Description

Clarity is a clinical stage radiopharmaceutical company developing next-generation theranostic (therapy and imaging) products, based on their proprietary SAR technology. SAR technology unlocks the use of copper isotopes enabling superior imaging and therapeutic characteristics of radiopharmaceutical products. With this combination, Clarity aim to address the current manufacturing and logistical limitations in the growth of the radiopharmaceutical sector in oncology.

Catalysts

a) achievement of trial endpoints; b) partnership opportunities; c) regulatory approvals.

Investment Thesis

Maintain OW and risked PT of \$1.22/sh. Clarity's ⁶⁷Cu manufacturing partner NSMI held a site tour last week in Wisconsin. We attended to validate progress. ⁶⁷Cu has been the rate limiting step preventing the broad translation of the ^{64/67}Cu 'perfect theranostic pairing'. NSMI's reduction to practice of photonuclear production on electron accelerators is a key milestone. The arrival of ⁶⁷Cu as commercial isotope increases the value of CU6's SAR conjugation chemistry.

Risks

a) unfavourable clinical trial results; b) reliance on third parties to advance asset development; c) competitive intensity of radiopharmaceutical market; d) unfavourable markets.

P&L (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	0.0	0.0	0.0	0.0	0.2
EBITDA norm	(10.2)	(23.8)	(22.6)	(26.5)	(44.9)
EBIT norm	(10.2)	(23.8)	(22.7)	(26.6)	(45.0)
PBT norm	(10.2)	(23.7)	(21.9)	(26.4)	(44.7)
NPAT norm	(10.2)	(23.8)	(22.0)	(26.4)	(44.7)
NPAT reported	(10.4)	(23.8)	(22.0)	(26.4)	(44.7)
EPS norm (cents)	(5.8)	(9.8)	(8.5)	(10.2)	(14.1)
DPS (cents)	0.0	0.0	0.0	0.0	0.0

Growth (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Sales	n/m	n/m	n/m	n/m	n/m
EBITDA norm	45.5	132.8	(4.9)	17.2	69.2
NPAT norm	45.9	133.2	(7.5)	20.0	69.5
EPS norm (cents)	(80.2)	69.3	(13.2)	20.0	38.6
DPS (cents)	n/m	n/m	n/m	n/m	n/m

Margins and returns (%)	FY21A	FY22A	FY23E	FY24E	FY25E
-------------------------	-------	-------	-------	-------	-------

Interims (\$m)	1H22A	2H22A	1H23A	2H23E	1H24E
Sales	0.0	0.0	0.0	0.0	0.0
EBITDA norm	(13.7)	(10.1)	(11.8)	(10.8)	(11.1)
EBIT norm	(13.7)	(10.1)	(11.8)	(10.9)	(11.1)
PBT norm	(13.7)	(10.0)	(11.2)	(10.7)	(11.0)
NPAT norm	(13.7)	(10.0)	(11.2)	(10.7)	(11.0)
NPAT reported	(13.7)	(10.0)	(11.2)	(10.7)	(11.0)
EPS norm (cents)	(5.8)	(4.0)	(4.3)	(4.1)	(4.2)
DPS (cents)	0.0	0.0	0.0	0.0	0.0

Stock specific	FY21A	FY22A	FY23E	FY24E	FY25E
R&D expenditure (\$m)	(9.7)	(18.9)	(26.7)	(28.8)	(32.6)

Balance sheet (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash & equivalents	18.9	92.3	68.8	42.8	73.3
Current receivables	3.4	6.7	5.0	5.0	5.0
Current inventory	0.0	0.0	0.0	0.0	0.0
PPE	0.1	0.3	0.2	0.1	0.1
Total assets	22.6	99.8	74.6	48.5	79.0
Current payables	1.8	6.8	2.4	3.1	4.4
Total debt	0.0	0.0	0.0	0.0	0.0
Total liabilities	2.3	7.6	2.7	3.7	5.6
Shareholders equity	20.3	92.2	71.9	44.7	73.4

Cash flow (\$m)	FY21A	FY22A	FY23E	FY24E	FY25E
Operating cash flow	(7.7)	(13.3)	(23.6)	(26.0)	(44.6)
Maintenance capex	(0.1)	(0.2)	(0.0)	(0.0)	(0.0)
Free cash flow	(7.7)	(13.5)	(23.6)	(26.1)	(44.6)
Growth capex	0.0	0.0	0.0	0.0	0.0
Acquisitions/disposals	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Other cash flow	(0.7)	(32.1)	31.0	5.0	0.0
Cash flow pre-financing	(8.4)	(45.6)	7.4	(21.1)	(44.6)
Funded by equity	20.9	92.1	0.0	0.0	75.2
Funded by cash/debt	(24.0)	(139.0)	4.5	26.1	(105.8)

Liquidity	FY21A	FY22A	FY23E	FY24E	FY25E
Cash conversion (%)	75.6	56.2	106.6	99.1	100.0
Net debt (\$m)	(18.9)	(92.3)	(68.8)	(42.8)	(73.3)
Net debt / EBITDA (x)	1.9	3.9	3.0	1.6	1.6
ND / ND + Equity (%)	n/m	n/m	n/m	n/m	n/m
EBIT / Interest expense (x)	n/m	n/m	28.4	n/m	n/m

Valuation	FY21A	FY22A	FY23E	FY24E	FY25E
EV / Sales (x)	n/m	n/m	n/m	n/m	n/m
EV / EBITDA (x)	n/m	n/m	n/m	n/m	n/m
EV / EBIT (x)	n/m	n/m	n/m	n/m	n/m
P / E (x)	n/m	n/m	n/m	n/m	n/m
P / BV (x)	6.3	1.9	2.6	4.2	3.4
FCF yield (%)	(6.1)	(7.6)	(12.7)	(14.0)	(17.8)
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Payout ratio (%)	0.0	0.0	0.0	0.0	0.0
Weighted shares (m)	176.5	243.1	259.0	259.0	316.9

Source: Company data, Wilsons estimate, Refinitiv, IRESS.
All amounts are in Australian Dollar (A\$) unless otherwise stated.

Disclaimers and Disclosures

Recommendation structure and other definitions

Definitions at wilsonsadvisory.com.au/disclosures.

Analyst certification

Each analyst of Wilsons Advisory and Stockbroking Limited (ACN 010 529 665: AFSL 238375) ("Wilsons") whose name appears in this research certifies that (1) the recommendations and opinions expressed in this research accurately reflect the analyst's personal, independent and objective views about any and all of the subject securities or issuers; (2) no part of the analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the analyst in the research; and (3) to the best of the analyst's knowledge, he/she is not in receipt of material non-public information about the issuer.

Disclaimer

This document has been prepared by Wilsons. This communication is not to be disclosed in whole or part or used by any other party without Wilsons' prior written consent. All material presented in this document, unless specifically indicated otherwise, is under copyright to Wilsons. None of the material, its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of Wilsons. This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Wilsons to any registration or licensing requirement within such jurisdiction.

This document is being supplied to you solely for your information and no action should be taken on the basis of or in reliance on this document. To the extent that any information prepared by Wilsons contains any financial product advice, it is general advice only and has been prepared by Wilsons without reference to your objectives, financial situation or needs. You should consider the appropriateness of the advice in light of your own objectives, financial situation and needs before following or relying on the advice. You should also obtain a copy of, and consider, any relevant disclosure document before making any decision to acquire a financial product. Please refer to Wilsons' Financial Services Guide for more information:

wilsonsadvisory.com.au/disclosures. Any person, before acting on any advice contained within this communication, should first consult with a Wilsons investment adviser to assess whether the advice within this communication is appropriate for their objectives, financial situation and needs. Those acting upon such information without advice do so entirely at their own risk.

This document provided by Wilsons is current as at the date of the issue but may be superseded by future publications. Wilsons assumes no obligation to update the information or advise on further developments relating to the company or companies covered in this document ("Companies") or relevant financial products. Wilsons has not independently verified all of the information given in this document which is provided at a point in time and may not contain all necessary information about the Companies. Wilsons makes no warranty, express or implied, concerning any information prepared by Wilsons. Wilsons expressly disclaims (1) any implied warranty of merchantability or (2) fitness for a particular purpose, including any warranty for the use or the results of the use of any information prepared by Wilsons with respect to their correctness, quality, accuracy, completeness, reliability, performance, timeliness, or continued availability. Wilsons' research content should be viewed as an additional investment resource, not as your sole source of information. To the fullest extent permitted by law Wilsons, its related bodies corporate and their respective officers, directors, employees or agents, disclaim any and all liabilities for any loss or damage howsoever arising in connection with the use of this document or its contents. Past performance does not necessarily indicate a financial product's likely future performance.

This document may contain "forward-looking statements". Forward-looking statements, opinions and estimates provided in this document are based on assumptions and contingencies which are outside the control of Wilsons and are subject to change without notice (including but not limited to economic conditions, market volatility and company-specific fundamentals), and therefore may not be realised in the future.

This report does not constitute an offer or invitation to purchase any securities and should not be relied upon in connection with any contract or commitment whatsoever.

Regulatory disclosure

Wilsons restricts research analysts from trading in securities for which they write research. Other Wilsons employees may hold interests in the company, but none of those interests are material. Wilsons further advises that at the date of this report, neither Wilsons Advisory and Stockbroking Limited or Wilsons Corporate Finance Limited have any material interests in the company.

Wilsons Advisory and Stockbroking Limited may have a conflict of interest which investors should consider before making an investment decision. Wilsons Advisory and Stockbroking Limited, Wilsons Corporate Finance Limited and its related bodies corporate trades or may trade as principal in the securities that are subject of the research report. Wilsons restricts research analysts from trading in securities for which they write research. Other Wilsons employees may hold interests in the company, but none of those interests are material.

Wilsons contact

For more information please phone: 1300 655 015 or email: publications@wilsonsadvisory.com.au

