

Analyst
Dr Tara Speranza 612 8224 2815

Authorisation
John Hester 612 8224 2871

Microba Life Sciences (MAP)

California Dreaming

Recommendation
Buy (unchanged)
Price
\$0.415
Valuation
\$0.60 (previously \$0.40)
Risk
Speculative

GICS Sector
Pharmaceuticals & Biotechnology

Expected Return

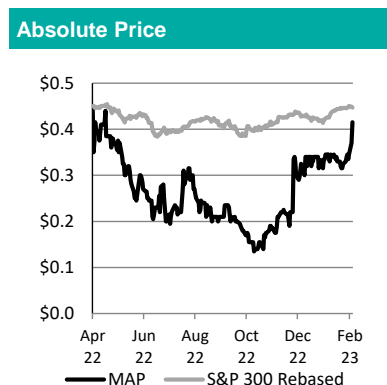
Capital growth	44.5%
Dividend yield	0.0%
Total expected return	44.5%

Company Data & Ratios

Enterprise value	\$100.3m
Market cap	\$142.3m
Issued capital	342.9m
Free float	75%
Avg. daily val. (52wk)	\$98,197
12 month price range	\$0.135 - \$0.45

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.34	0.19	N/A
Absolute (%)	23.88	118.42	N/A
Rel market (%)	17.59	111.16	N/A



SOURCE: IRESS

Distribution agreement with Luminary Health Centers Inc.

MAP has this morning announced that a distribution agreement has been executed with Luminary Health Centers Inc. to distribute a microbiome test powered by Microba's testing technology to consumers in the United States – particularly in California. The initial 12 month phase of the agreement has a value of USD \$458,000 to Microba, with subsequent stages that are likely to provide for potential greater financial commitments subject to agreement between the parties. This agreement gives MAP deeper access into the US market, with Sonic and Genova focussed on the pathology markets, while Luminary have well established consumer-focussed, holistic health clinics. This deal is not dissimilar to MAP's previous partnership with Midnight Health in Australia, and we consider this an important market for MAP to tap into with its gut health tests - in parallel with the mainstream diagnostic and pathology markets.

MAP has also announced positive preclinical data in an animal model of melanoma. MAP's microbial therapeutic candidate elicited a significant reduction in tumour volume in mice treated with an immune checkpoint inhibitor (ICI). This early data provides confidence to further investigate a program of work towards enabling a clinical study (or studies) aimed at improving ICI outcomes in oncology patients.

Microba (MAP) released its Q2FY2023 report, highlighting a good financial position, particularly in light of the \$17.8m investment in the company by Sonic Healthcare (who acquired a 19.9% stake in Microba and entered into a global commercial partnership spanning 7 major regions). The company reported cash receipts totalling \$1.6m representing 43% growth on the pcp, received a \$2.6m R&D Tax Incentive from the Government and ended the quarter with \$42.0m cash.

Investment view: valuation to \$0.60, maintain Buy (Spec.)

The execution of this deal with Luminary has locked in revenue for the next 12 months, appearing in FY23 and FY24 in our updated model. The follow-on from this is an immediate increase to our valuation to \$0.60 p/s (previously \$0.40 p/s). This represents a 44.5% premium to the current share price. We therefore maintain our Buy (Spec.) recommendation.

Table 1 - Earnings Forecast

	FY22	FY23e	FY24e	FY25e
Revenues (\$m)	4.7	6.1	9.6	15.6
EBIT (\$m)	-11.5	-13.3	-12.2	-6.2
NPAT \$m	-11.5	-13.3	-12.2	-6.2
EPS underlying (cps)	-4.8	-4.3	-3.6	-1.8
EPS growth (%)	nm	nm	3.0	2.3
PER (x)	nm	nm	nm	nm
FCF yield (%)	nm	nm	nm	nm
EV/EBITDA (x)	nm	nm	nm	nm
Dividend (cps)	0.0	0.0	0.0	0.0
Franking	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0
ROE (%)	0.1	0.1	0.2	0.6

SOURCE: BELL POTTER SECURITIES ESTIMATES

Execution of partnership and distribution with Luminary

Luminary Health Centers Inc. is a US company focussed on delivering personalised health experience for their customers/patients using state-of-the-art genomics and predictive intelligence coupled with advanced health science.

The agreement signed with Luminary provides non-exclusive distribution rights out to 2027 to deliver a Microba powered test to consumers in the United States.

Microba now has significant global distribution coverage for its gut microbiome test via partnerships with a number of the world’s leading healthcare and/or pathology companies. This is in addition to partnerships the company has with integrative and functional medicine partners (eg, Metagenics) and consumer partners (eg, Midnight Health and now Luminary Health) as we have previously described in our research communications.

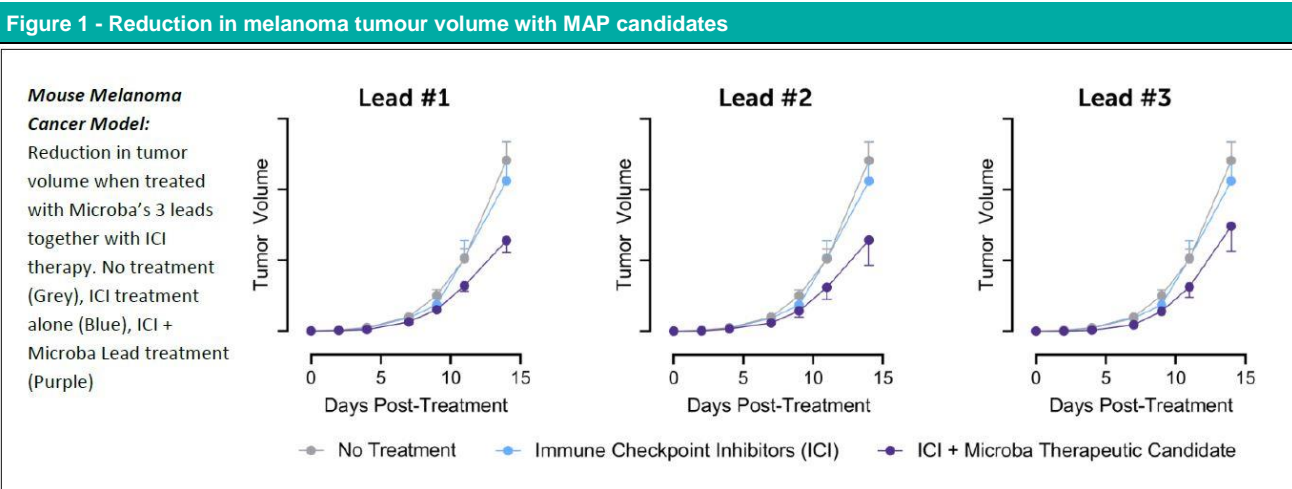
Immuno-oncology Program completed first animal studies ‘producing positive results’

It is commonly understood that immune checkpoint inhibitors (most well-known is example is Merck’s Keytruda – although most large pharma companies have at least one of these drugs on the market) do not work in all patients.

Up to (but not always) 70% of patients do not respond to these drugs. Usually this is because the patient does not express sufficient amounts of the target immune check-point protein or its receptor.

Microba have shown that, in a mouse model of melanoma, their microbial therapeutic candidate (undisclosed) elicited a significant reduction in tumour volume in mice treated with an immune checkpoint inhibitor (ICI) (also undisclosed), when compared to control mice that received ICI therapy alone.

The results are shown in the figure below.



SOURCE: COMPANY DATA

MAP indicates this mouse model was chosen as it is refractory to ICI response and therefore represents ICI non-responders. To determine whether the MAP therapeutic candidates are having an effect on tumour size alone or as a synergistic effect with the ICI used in the study, MAP has indicated it will assess the impact of the lead candidates stand-alone in the next model. We await ongoing results from these studies with interest.

Q2FY2022 cash flows and activity

Financials:

- Cash receipts totalling \$1.6m representing 43% growth on the prior comparative period, Q2 FY22 (we note they were \$1.8m in Q1FY23, ie, ~12% decrease to preceding quarter).
- Revenue (unaudited) totalled \$1.2m (compared to \$0.9m in Q1FY23 – a 33% increase).
- The company received a \$2.6m R&D Tax Incentive for Research & Development Activities conducted during FY22.
- Total operating expenses = \$0.84m (down from \$4.2m in Q1FY23 – however, note this includes the R&D payment received).
- MAP has \$42.0m in cash or equivalents as at Dec 31 2022, a healthy increase from the previous report of \$26.2 following the Sonic investment – this will fund the company into the foreseeable future.

Activity highlights from the quarter:

- Major new partnership with Sonic Healthcare - Sonic invested \$17.8m to acquire a 19.99% shareholding in Microba. In addition, Sonic is seeking to acquire options for an additional 5% equity position, subject to shareholder approval at an upcoming EGM to be held on 1 February 2023. Further, Microba and Sonic entered into initial terms of an agreement that enables Sonic and its subsidiaries to distribute Microba's microbiome testing products to its customers, including general practitioners and specialists, across Australia, New Zealand, Germany, United Kingdom, Belgium, Switzerland and the United States.
- Europe expansion with SYNLAB - With positive sales results in Spain, in October 2022 SYNLAB further activated their rights to pursue formal expansion into additional countries across Europe and Latin America through a major amendment to the master agreement. Aligned to this, during the quarter a first group of new agreements were signed with SYNLAB affiliate organisations Synlab Italia Srl and SYNLABHEALTH II S.A. for Italy and Portugal respectively.
- Biotherapeutic manufacturing hiccup – The Company has had to delay the start of their clinical trial in IBD due to a manufacturing incident (machine breakdown) at the external GMP laboratory. We expect an announcement regarding a definitive start date this quarter.
- In addition to the consumer-focussed companies MAP has partnered with, MAP now has access to 35 countries, with their test kits operationalised in 7 already, via their impressive distribution partnership agreements with major global pathology and diagnostics companies. These are:
 - Sonic Healthcare > UK, Germany, Switzerland, Belgium, Australia, NZ & US;
 - SYNLAB > Broader Europe & LATAM;
 - Genova Diagnostics > US;
 - G42 Healthcare > Middle East (GCC Region).

Valuation changes

Our valuation of \$0.60 is derived from a discounted cash flow model. The model includes prospective revenue from future sales of commercial gut microbiome testing kits and both ongoing and new contracts for research testing services provided by the company. Given this announcement regarding the partnership with Luminary Health, we have increased the personal testing revenues in FY23 by USD\$50,000 and the remaining USD\$408k has been allocated to FY24 in our model. We have also modestly increased our forecasted personal testing revenues into the future based on this announcement, given the impressive track record MAP has for obtaining upgraded amendments to its pre-established agreements. The company remains sufficiently funded throughout the duration of our forecasts and is not likely to require a capital raise any time in the near future.

Table 2 - Changes to forecast revenues from microbiome testing

All in AUD\$m	FY23E			FY24E			FY25E		
	Previous	New	% change in forecast	Previous	New	% change in forecast	Previous	New	% change in forecast
Personal Testing	3.3	3.4	2.1%	5.4	5.9	9.0%	9.4	10.7	13.5%
Research Testing	2.8	2.8	0.0%	3.7	3.7	1.0%	5.0	5.0	0.0%
Total revenue	6.1	6.2	1.1%	9.1	9.6	5.2%	14.4	15.7	8.8%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Company description

Microba Life Sciences

Microba Life Sciences Limited (ASX:MAP) is an early-stage, commercial, microbiome-focussed biotech company that provides gut microbiome testing for individuals as well as for larger capacity research projects. The company uses the very comprehensive metagenomics-based sequencing, and data generated from the sequencing is then analysed via Microba's profiling algorithms and proprietary reference database, the Microba Genome Database, to identify microorganisms and their functions with high resolution. MAP also in the development phases for a number of novel microbiome-based therapeutics. The company has a number of good distribution partnerships for its current test kit and is working with large international biotech and pharma partners to further the development of the therapeutic arm of the company.

KEY RISKS

Key risks we consider to be specific to MAP include, but are not limited to:

Clinical and regulatory risk: MAP indicates they have a lead drug candidate for the treatment of IBD, although, so far, only animal studies have been completed. The company is still a distance away from any important clinical data from phase 2 or 3 trials. The company is in the exploration phases for possible drug candidates for their immunology, allergy and autoimmune programmes. Again, without clinical data, the risk that no successful and efficacious investigative results will be achieved is very high.

Regulatory risk: MAP will require IND approval to run any clinical trials. Following that, if the company produces clinically efficacious data from their lead candidate trials, there remains a regulatory risk for all of their drug products to be approved for use in humans in any region they aim to target.

Commercial risk: Our current forecasts assume revenue growth only from the product sales segment of the business, and from the ability of Microba to grow contract revenues for its research services business. Failure to achieve growth from either division of the current revenue base would see the company's earnings differ from both our forecasts and the company's forecasts.

Competitive risk: There are a number of companies, some listed and most privately held, with gut microbiome test kits. These are viewed as competition to MAP for the testing of individual/personal gut microbiome health. While there has been a notable increase in the interest surrounding gut health and testing, a major shift in clinical practise is still required to see GPs and medical practitioners order these tests. Indeed, it may well be the alternative medial community for whom we see an uptick in test ordering, and this is also a lucrative market. Fewer of the competitive peers have a focus on the development of therapeutic products, making Microba an attractive company in the future once more clinical data is available.

Distributor risk: The success of commercialization becomes highly dependent on the level of commitment from the distributors. Overall, the scalable distribution model has thus far been successful and we expect this to continue in an upward trajectory. A lack of prioritization for distributors to promote Microba tests could see sales figures differ significantly from our forecasts.

Financial risk: Microba is currently a loss-making business, and is expected to continue to incur losses as far as we have forecast (FY26 still loss-making). It is also possible that the company will require further capital injections from shareholders later down the track if MAP continues without becoming profitable.

Table 3 - Financial summary

A\$m	FY21	FY22	FY23e	FY24e	FY25e	Valuation Ratios (A\$m)	FY21	FY22	FY23e	FY24e	FY25e
Year Ending 30 June						Reported EPS (cps)	-3.5	-4.8	-4.3	-3.6	-1.8
Revenue	3.7	4.7	6.1	9.6	15.6	Normalised EPS (cps)	-3.5	-4.8	-4.3	-3.6	-1.8
<i>Change</i>	28%	25%	30%	57%	63%	EPS growth (%)	nm	nm	nm	3.0	2.3
Cost of sales	-1.7	-2.3	-2.5	-3.9	-3.4	PE(x)	nm	nm	nm	nm	nm
Gross profit	2.1	2.4	3.6	5.7	12.2	EV/EBIT (x)	nm	nm	nm	nm	nm
<i>Gross margin</i>	55%	50%	59%	59%	78%	Total assets	18.5	39.5	43.6	32.9	29.2
Other income/(expense)	2.1	4.4	4.4	4.5	5.0	Net Assets	14.9	33.5	38.0	25.8	19.6
Expenses (excl. D&A, int.)	-10.4	-16.7	-20.3	-21.6	-22.9	NTA	14.9	33.5	37.8	25.6	19.4
<i>% of revenue</i>	-277%	-355%	-333%	-225%	-147%	NTA/share cps	0.1	0.1	0.1	0.1	0.1
EBITDA	-6.2	-9.9	-12.3	-11.4	-5.7	Book value per share	0.1	0.1	0.1	0.1	0.1
Depreciation and amortisation	-1.2	-1.5	-1.0	-0.8	-0.5	P/NTA (x)	5.8	3.4	3.8	5.6	7.3
EBIT	-7.4	-11.5	-13.3	-12.2	-6.2	Price/Book (x)	577.1	339.5	374.3	551.7	726.4
Net interest (expense)/revenue	0.1	0.0	0.0	0.0	0.0	DPS (cps)	0.0	0.0	0.0	0.0	0.0
Pre-tax profit	-7.4	-11.5	-13.3	-12.2	-6.2	Payout ratio %	0.0	0.0	0.0	0.0	0.0
Income tax expense	0.0	0.0	0.0	0.0	0.0	Dividend Yield %	0.0	0.0	0.0	0.0	0.0
NPAT	-7.4	-11.5	-13.3	-12.2	-6.2	Franking %	0.0	0.0	0.0	0.0	0.0
Cashflow (A\$m)	FY21	FY22	FY23e	FY24e	FY25e	FCF yield %	nm	nm	nm	nm	nm
EBITDA	-6.2	-9.9	-12.3	-11.4	-5.7	Net debt/(Cash)	-12.9	-30.2	-37.1	-25.8	-20.6
Change in working capital	-1.1	-0.5	1.9	0.6	1.0	Net debt/Equity	-0.9	-0.9	-1.0	-1.0	-1.1
Gross cash flow	-7.3	-10.4	-10.4	-10.8	-4.7	Net debt/Assets	-0.7	-0.8	-0.9	-0.8	-0.7
Interest received	0.1	0.0	0.0	0.0	0.0	Gearing	0.0	0.0	0.0	0.0	0.0
Interest paid	0.0	-0.1	-0.1	-0.1	-0.1	Net debt/EBITDA (x)	2.1	3.0	3.0	2.3	3.6
Operating cash flow	-7.2	-10.4	-10.4	-10.9	-4.7	Interest cover (x)	0.0	0.0	0.0	0.0	0.0
Payments for PPE	-0.2	-1.6	-0.2	-0.2	-0.2	Segmentals (A\$m)					
Payments for trials and development	0.1	0.3	0.0	0.0	0.0	Revenue					
Investing cash flow	-0.5	-1.7	-0.5	-0.5	-0.5	Personal Testing	1.6	2.2	2.5	3.4	6.0
Proceeds from issue of convertible notes	-0.1	-0.2	0.0	0.0	0.0	Research Testing	1.3	1.5	2.2	2.7	3.6
Proceeds from issue of shares	-0.2	-0.3	0.0	0.0	0.0	Total revenue	2.9	3.7	4.7	6.1	9.6
Proceeds from sell down of shares	15.1	31.3	17.8	0.0	0.0	Growth					
Repayment of leases	-1.0	-1.9	0.0	0.0	0.0	Personal Testing	39%	39%	12%	32%	66%
Financing cash flow	13.8	29.2	17.8	0.0	0.0	Research Testing	15%	15%	46%	25%	30%
Net change in cash	6.1	17.0	6.9	-11.4	-5.2	Total growth	28%	28%	26%	30%	57%
Cash at start of period	6.9	13.0	30.6	37.5	26.2	Interim Results					
Exchange rate impact	0.0	0.6	0.1	0.1	0.1	2H21	1H22	2H22	1H23e		
Cash at end of period	13.0	30.6	37.5	26.2	21.0	Revenues	2.0	2.2	2.5	2.1	
Balance Sheet (A\$m)						EBIT	-3.8	-6.0	-6.3	-6.1	
Cash	13.0	30.6	37.5	26.2	21.0	NPAT	-3.8	-3.5	-6.3	-6.1	
Current receivables	1.6	3.4	1.2	1.9	3.1						
Inventories	0.5	0.4	0.3	0.5	0.8						
Other current assets	-	0.2	-	-	-						
PPE	1.1	2.0	1.7	1.5	1.5						
Intangibles	-	-	0.2	0.2	0.2						
Right-of-use assets	0.1	0.8	0.8	0.8	0.8						
Total assets	18.5	39.5	43.6	32.9	29.2						
Payables	1.6	2.9	2.6	4.0	6.6						
Current Lease Liabilities	0.1	0.5	0.5	0.5	0.5						
Employee Benefits	0.1	0.2	0.2	0.2	0.2						
Contract Liabilities	1.1	0.9	0.9	0.9	0.9						
Non-Current lease liabilities	0.1	0.5	0.5	0.5	0.5						
Total liabilities	3.6	5.9	5.6	7.1	9.6						
Net Assets	14.9	33.5	38.0	25.8	19.6						
Share capital	33.5	62.9	80.7	80.7	80.7						
Other reserves	1.2	1.9	1.9	1.9	1.9						
Accumulated losses	(19.7)	(31.2)	(44.5)	(56.8)	(63.0)						
Total shareholders' equity	14.9	33.5	38.0	25.8	19.6						

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

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Research Team

Staff Member	Title/Sector	Phone	@bellpotter.com.au
Chris Savage	Head of Research/Industrials	612 8224 2835	csavage
Analysts			
John Hester	Healthcare	612 8224 2871	jhester
Anubhav Saxena	Healthcare	612 8224 2846	asaxena
Tara Speranza	Healthcare	612 8224 2815	tsperanza
Michael Ardrey	Industrials	613 9256 8782	mardney
Marcus Barnard	Industrials	618 9326 7673	mbarnard
Sam Brandwood	Industrials	612 8224 2850	sbrandwood
Daniel Laing	Industrials	613 8224 2886	dlaing
Olivia Haggglund	Industrials	612 8224 2813	ohaggglund
Chami Ratnapala	Industrials	612 8224 2845	cratnapala
Jonathan Snape	Industrials	613 9235 1601	jsnape
David Coates	Resources	612 8224 2887	dcoates
Regan Burrows	Resources	618 9326 7677	rburrows
Joseph House	Resources	613 9235 1624	jhouse
Stuart Howe	Resources	613 9235 1856	showe
Brad Watson	Resources	618 9326 7672	bwatson
Associates			
Thomas Sima	Associate Analyst	612 8224 2843	tsima
James Williamson	Associate Analyst	613 9235 1692	jwilliamson
Connor Eldridge	Associate Analyst	612 8224 2893	celdridge

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Bell Potter Securities Limited

ABN 25 006 390 772
Level 29, 101 Collins Street
Melbourne, Victoria, 3000
Telephone +61 3 9256 8700
www.bellpotter.com.au

Bell Potter Securities (HK) Limited

Room 1601, 16/F
Prosperity Tower
39 Queens Road
Hong Kong Central
Hong Kong, 0000
Telephone +852 3750 8400

Bell Potter Securities (US) LLC

Floor 39
444 Madison Avenue, New York NY
10022, U.S.A
Telephone +1 917 819 1410

Bell Potter Securities (UK) Limited

16 Berkeley Street London, England
W1J 8DZ, United Kingdom
Telephone +44 7734 2929