

# Microba Life Sciences Ltd

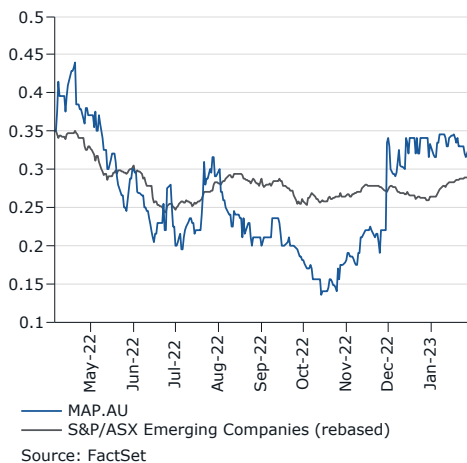
## Biotechnology

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Rating <b>SPECULATIVE BUY</b>	Price Target <b>A\$0.41</b>
MAP-ASX	Price <b>A\$0.33</b>

### Market Data

52-Week Range (A\$) :	0.14 - 0.45
Avg Daily Vol (000s) :	189.45
Shares Out. (M) :	342.9
Market Cap (A\$M) :	113.2
Dividend /Shr (A\$) :	0.00
Dividend Yield (%) :	0.0



Priced as of close of business 30 January 2023

MAP is a precision microbiome company offering microbiome testing services, and is working on microbial cell therapies for inflammatory bowel disease, cancer immunotherapy and autoimmune disease.

## 2Q23 result a slight miss, progressing in diagnostics and clinical

### Investment Recommendation

MAP reported its 2Q23 result, which slightly missed expectations at the top line, with success implementing cost control measures. The company has successfully curated a leading group of international partners, including Sonic, Synlab, Genova, G42 and Gingko. We like the company's approach to driving distributor-led sales, noting Sonic and Gingko will likely be the most active partners given their financial alignment via shareholdings. We look forward to ongoing improvements in diagnostic sales. The therapeutic segment is still early and represents a very high-risk, high-reward opportunity in the much longer term.

### Result summarised

Unaudited revenue for the quarter was \$1.2m (\$0.92m for 1Q23), missing prior \$2.8m forecasts for the half by 30%. Net OpCF outflow was \$0.8m for the quarter and \$4.5m for the half, with cost saving measures already starting to be seen. We look forward to the half-year result for more detail on the segments and growth outlook.

The balance sheet remains healthy, with \$41.2m in cash after Sonic's investment. This is sufficient to fund ongoing sales/marketing efforts for the diagnostics segment, which has a more substantial impact on near-term earnings. The company is also progressing its clinical programs, and expects to enter Phase 1 by June 2023.

### Our take

The results were in line with expectations, with the key focus on ongoing execution on diagnostic and clinical. We maintain our positive stance on the Sonic partnership as validating the company's technology and like them a distributor for the products across a number of critical geographies. Terms around revenue recognition timing and sales force incentive structures are yet to be determined, and we look forward to more clarity in the coming months as the partnership progresses.

The clinical program remains very early, with broad plans to enter Phase I in IBD, achieve pre-clinical data for its immuno-oncology program, and in target identification for autoimmune disease. The company is targeting large markets, where its products will not be first to market but could gain market share pending safety and efficacy data. Success has been seen by peers in the microbiome space, with Ferring achieving the first faecal microbiome treatment approval for C. diff in November 2022. Interestingly, following that news flow, microbiome developer Finch laid off 95% of its workforce and will end its trial. Microba's products are uniquely positioned with their single-strain approach and may potentially differentiate vs other microbiome derived therapeutics.

### Forecasts and valuation

No changes to forecasts on the result. We maintain our SPECULATIVE BUY rating and \$0.41 price target.

# Appendix: Important Disclosures

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## Investment Recommendation

Date and time of first dissemination: January 30, 2023, 22:37 ET

Date and time of production: January 30, 2023, 22:37 ET

## Target Price / Valuation Methodology:

Microba Life Sciences Ltd - MAP

We value MAP at \$0.41/share based on a 10-year two-stage DCF with explicit forecasts to FY27E and scaling growth on the free cash flow line for the balance. We only rely on the testing/research/subscription businesses. We apply a 14% discount rate which reflects the changing interest rate environment as well as the early-stage nature of the business and the risk profile that ensues.

## Risks to achieving Target Price / Valuation:

Microba Life Sciences Ltd - MAP

## Clinical and regulatory risk

MAP's databank is designed to produce candidates for drug development. MAP advises it has three key programs at present in IBD, cancer and autoimmune diseases. The most advanced of these programs is in IBD. It has completed animal studies and is currently preparing to undertake a Phase 1 human trial. Should these trials be successful, it would then seek to partner with a major pharmaceutical company to progress the Phase 2/3 clinical trial stages and regulatory approvals. There is a high degree of risk the current Phase 1 trials are unsuccessful and its strategy to commercialise its lead candidates fails. Even if drug candidates make it through to Phase 2/3 trial stages, there is risk of failure, and therefore a key aspect of the business model does not succeed.

## Testing services adoption

In the short-to-medium term, MAP is reliant on expanding its testing services across consumer health, health practitioner avenues and through the professional research pathways. The testing services not only generate revenue for the firm, but also add to the databank from which further drug candidates may be sourced. If MAP or its testing distribution partners cannot generate increasing adoption of its testing kits, the revenue stream could stall or decline. Note that over the past three and half years, MAP has managed to grow the testing business each year, even through the COVID-19 pandemic. It has also established at least five distribution partners across different geographic markets, suggesting a level of appeal for the MAP analysis platform and growing global demand for microbiome testing services.

## Distribution risks

While MAP has established distribution deals with reputable parties and testing revenues have been increasing, it is not yet clear how scalable the testing model can be or whether these partners will remain committed to Microba's testing products.

## Competitive risks

MAP claims to have a leading microbiome analysis platform; however, MAP is not unique in analysing the gut microbiome. There are a number of competing microbiome testing products in the market. It is unclear whether MAP can rise to a dominant share of the microbiome testing market or whether health practitioners will adopt this kind of testing in the volume required for MAP to become profitable on testing alone (excluding a therapeutic transaction). It may turn out the independent health practitioner segment is more suited to a service like this than GPs, but it is premature to discern definitive observations. It is noteworthy, that few testing companies have a drug development focus, that could position MAP more favourably post positive clinical trial data.

## Manufacturing risk

MAP's testing services are dependent on uninterrupted operation of the sequencing machine provided/maintained by Illumina, and provision of the testing swabs by COPAN. MAP is also subject to uninterrupted operation of cloud data storage and computing infrastructure from Google Cloud Platform. Supply chain issues could impact both COGS/gross margins and cause delays through the need to source new partners.

## Transaction risk

MAP has highlighted the value of recent therapeutic transactions as a marker for the quantum of pay-off for investors that might be available. MAP has referred to minimum transaction levels of c.\$500m and up to c.\$1.5bn over the full life of a transaction including upfront, milestone and ongoing royalty payments post FDA approval and commercialisation of drug candidates. It is feasible that transactions that MAP might be able to strike could underwhelm investor expectations and prove that its databank and drug candidates are not as valuable as the firm suggests, and diminish potential investor returns. However, there are strong relevant deal precedents to support the transactions sizes MAP has referred to.

### Financial risks

Based on the testing business alone, we do not expect MAP to be EBITDA positive until FY26E. It has raised \$30m from the IPO, but in the absence of a therapeutic transaction, it is reasonable to suggest that MAP will need more capital to fund its testing operations to profitability. MAP has suggested it is hopeful of its first therapeutic transaction occurring within 18 months from the IPO. We do expect that MAP has sufficient capital for that time frame.

### Key person risk

The key founders of MAP are world-leading experts in metagenomics and MAP requires them to continue to conduct research and development activities associated with the analysis platform and discovery of drug candidates. Other experts in the therapeutic programme are also pivotal. Any loss of expertise could be detrimental to MAP's reputation and capacity to deliver on the potential provided by the microbiome databank.

### IP risks

Testing methods and lead drug candidates are in the process of being patented, while algorithms and software are maintained as trade secrets. MAP is exposed until patents are granted, while trade secrets can be exposed to breaches.

### Distribution of Ratings:

#### Global Stock Ratings (as of 01/30/23)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	609	64.17%	25.78%
Hold	167	17.60%	14.97%
Sell	13	1.37%	0.00%
Speculative Buy	149	15.70%	40.94%
	949*	100.0%	

\*Total includes stocks that are Under Review

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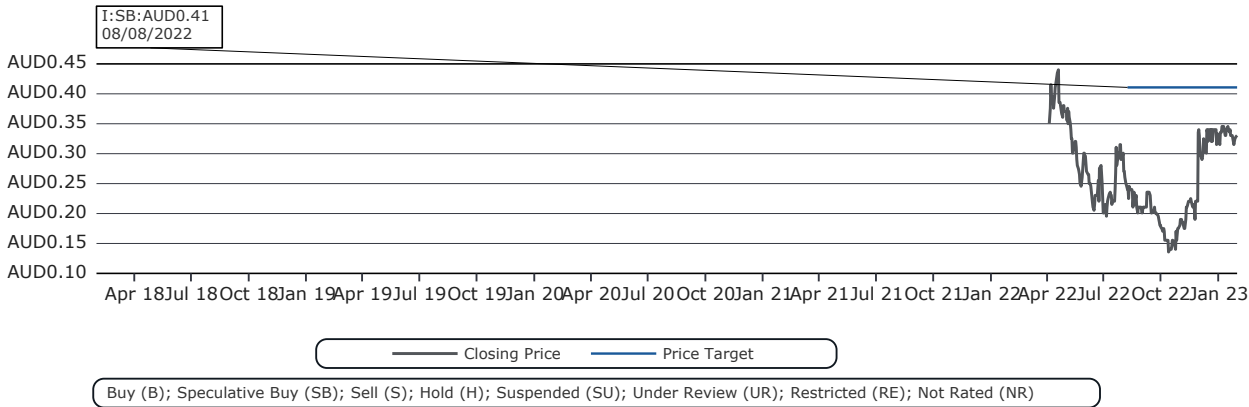
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**Microba Life Sciences Ltd Rating History as of 01/30/2023**



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