

Medical Developments (MVP)

Significant EU distributors validate Pentrox growth

30 June 2015

Paul Jensz
pjensz@pacpartners.com.au
+613 8633 9864

Key Points

- Since the 1980's MVP has prepared Australia's "Green Whistle" ("Pentrox") trauma pain relief for global relaunch via clinical trials of lower dosages with improved applicators.
- Last month MVP received United Kingdom MHRA reinstatement of Pentrox, and sales start in August with Galen as MVP's distributor through UK (Ireland & Belgium).
- Yesterday an unnamed global distributor agreed to up front US\$10m milestone and another US\$35m of milestones and additional royalties for distribution to the rest of EU.
- This validates Pentrox global application and lowers risk.

Two global shots on goal – Pain Relief and Respiratory Assist

Event: Yesterday MVP signed up a global Pentrox distributor for France, Germany, Italy, Spain and other EU countries (ex UK, Ireland, Belgium who are with Galen), for total milestone payments of US\$57.5m (A\$1.23/share).

Impact: This is a very significant milestone for MVP because a global distributor has paid 45% of MVP's Market Capitalisation (plus 30-40% royalty) for EU (ex UK, Ireland, Belgium) distribution. The best sort of validation for 7x lift in sales we expect by 2020 to \$42m.

After 25 years MVP's succeeds in make three simple claims:

1 - Paramedical pain needs the simple Pentrox option vs. complex and expensive nitrous oxide gas and injected morphine. eg: "Green Whistle" Pentrox in life saving etc.

2 - There was nothing ever wrong with Pentrox being used as an analgesic. (Pentrox was not suited to anaesthetic use.)

3 - Pentrox is safe to use in day procedure or regularly because there is no build-up in patients.

Change to DCF and Price Target:

We lift our PT from \$2.50/share to \$3.50/share.

FY'16 milestone payments of US\$20m are worth A\$0.43/share.

The increased certainty around EU sales with significant distributor gives the extra \$0.57/share via lower discount rate (10.1% to 9.6%).

The significant deals with Galen and this new global distributor across rest EU give credence to US sales starting in the medium term.

Our estimate for US commercial sales is that they start within five years. In today's update we raise the likelihood of faster ramp up in USA by lifting terminal growth (post 2020) from 3.5% to 5.5%.

View: We raise our 12 Month Price target by 40% to \$3.50/share. We keep our Buy recommendation due to: significant discount (27%) to share price; and 2 – FY'17F EV/EBITDA below 20x for high growth free cash flow positive growth story with Market Capital of \$160m and low debt. MVP has major momentum for at least the next twelve months with roll-out of: Pentrox (EU) and Spacers (USA, EU).

Risks: Low liquidity restricts institutional investor base.

Any delay to Pentrox sales across EU.

Aggressive competitor pricing in EU and US spacer markets.

Disclaimer: PAC Partners is paid a fee by the ASX under the ASX Equity Research Scheme for this research. Please refer to full disclaimer information on page 4.

Recommendation

Buy

Previous Recommendation	Buy
Risk Rating	Medium
Current Share Price	\$2.75
12 Month Price Target	(from \$2.50) \$3.50
Price Target Methodology	DCF
Total Return (Capital + Yield)	27%
DCF Valuation	(from \$2.50) \$3.50
Market capitalisation	\$159 m
Liquidity – Daily Value	\$0.03 m

PAC Partners vs. other broker

Y/e (\$m)	FY15F	FY16F	FY17F
Other broker EPS (cps)	2.8	25.8	10.4
vs. PAC (%)	0%	30%	30%

EPS Changes

Y/e	FY15F	FY16F	FY17F
Previous EPS (cps)	2.8	6.1	12.6
Change (%)	-7%	448%	7%

Financial Forecasts & Valuation Metrics

Y/e (\$m)	FY14 A	FY15 F	FY16 F	FY17 F
Revenue	9.3	11.5	41.6	32.2
NPAT	0.9	1.5	19.3	7.8
EPS (cps)	1.5	2.6	33.5	13.5
EPS Growth	-63%	73%	1184%	-60%
DPS (c)	0.0	0.7	2.1	3.4
EV / EBITDA (x)	147.6	64.7	5.2	12.6
PER (x)	182	105	8.2	20.4
Dividend Yield	0.0%	0.2%	0.8%	1.2%
Gearing	35.1%	33.4%	0.5%	2.0%
Interest Cover (x)	5.8	28.3	(41.2)	(11.4)

Source: PAC Partners estimates

Milestones

- August 2015 – Commercial sales of Pentrox in UK
- CY'15 – Significant USA and EU spacer sales growth with new large distributors
- June 2016 – USA distribution agreements for Pentrox

Source: PAC Partners estimates

Medical Developments		Price \$ 2.75										
NFPOS	58 m	Market Cap \$159 m										
PROFIT & LOSS (\$m)												
Y/End June	FY09A	FY10A	FY11A	FY12A	FY13A	FY14A	FY15F	FY16F	FY17F	FY18F	FY19F	FY20F
Revenue	8.7	8.3	10.2	11.3	11.7	9.3	11.5	41.6	32.2	42.8	50.9	52.9
EBITDA	1.3	1.6	2.5	4.1	3.4	1.1	2.5	26.8	10.7	15.6	18.2	19.4
Depreciation & Amortisation	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.5	0.8	1.2	1.5	1.8
EBIT	1.3	1.5	2.4	3.8	3.2	0.8	2.2	26.3	9.9	14.4	16.8	17.5
Net Interest	0.0	-0.2	0.1	0.2	0.0	-0.1	-0.1	0.6	0.9	1.2	1.6	1.9
Income tax	-0.4	-0.4	-0.8	-1.1	-0.9	0.2	-0.6	-7.6	-3.0	-4.4	-5.1	-5.2
NPAT underlying	0.9	0.9	1.7	2.9	2.3	0.9	1.5	19.3	7.8	11.3	13.2	14.2
Equity Accounting Profits												
Less non-controlling Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT underlying - attribut	0.9	0.9	1.7	2.9	2.3	0.9	1.5	19.3	7.8	11.3	13.2	14.2
Abnormal items	-0.1	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPAT Reported.	0.8	0.9	1.7	2.7	2.3	0.9	1.5	19.3	7.8	11.3	13.2	14.2
BALANCE SHEET (\$m)												
Y/End June	FY09A	FY10A	FY11A	FY12A	FY13A	FY14A	FY15F	FY16F	FY17F	FY18F	FY19F	FY20F
Cash	0.3	1.8	3.5	3.5	0.8	1.7	1.8	22.3	24.9	32.1	40.2	49.1
PP&E	0.9	0.6	0.7	0.7	1.0	1.1	1.4	1.6	1.7	1.8	1.7	0.6
Debtors & Inventory	3.1	2.5	2.6	3.1	3.7	3.3	3.6	9.7	8.8	11.3	13.3	13.5
Intangibles	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.0	6.6	6.3	6.0	5.7
Other assets	1.8	1.9	2.5	4.5	7.4	8.8	9.5	4.0	6.3	7.0	8.9	12.1
Total Assets	13.4	14.2	16.7	19.1	20.3	22.2	23.7	44.6	48.3	58.5	70.0	81.0
Borrowings	0.0	0.0	0.0	0.0	1.4	3.7	3.7	2.7	0.7	0.7	0.7	0.7
Trade Creditors	0.9	0.8	1.2	1.6	1.6	1.1	1.7	2.7	3.5	4.2	5.0	5.2
Other Liabilities	0.7	0.7	1.0	1.4	1.4	2.0	1.4	4.2	3.3	4.3	5.1	5.3
Total Liabilities	1.6	1.5	2.3	3.0	4.5	6.7	6.7	9.6	7.4	9.2	10.7	11.1
NET ASSETS	11.8	12.7	14.5	16.2	15.7	15.4	17.0	35.1	40.9	49.4	59.3	69.9
OEI and Pref Shares	0.0	1.0	2.0	3.0	4.0	5.0	6.0	7.0	8.0	9.0	10.0	11.0
Shareholder Equity	11.8	11.7	12.5	13.2	11.7	10.4	11.0	28.1	32.9	40.4	49.3	58.9
CASH FLOW (\$m)												
Y/End June	FY09A	FY10A	FY11A	FY12A	FY13A	FY14A	FY15F	FY16F	FY17F	FY18F	FY19F	FY20F
Operating EBITDA	1.3	1.6	2.5	4.1	3.4	1.1	2.5	26.8	10.7	15.6	18.2	19.4
Interest & Tax	(0.4)	(0.6)	(0.8)	(1.1)	(0.9)	0.4	(0.4)	(7.8)	(3.1)	(4.4)	(5.2)	(5.3)
Working Cap.	0.0	(0.5)	(0.7)	0.3	(0.1)	(1.7)	(0.4)	5.2	0.5	1.4	0.9	(0.0)
Operating CF	0.9	0.5	1.1	3.3	2.4	(0.2)	1.6	24.2	8.1	12.6	14.0	14.0
Maintenance Capex	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expansion Capex	(0.1)	0.0	(1.3)	(2.2)	(3.1)	(1.9)	(1.1)	(1.5)	(1.6)	(2.6)	(2.6)	(1.6)
Acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Free Cashflow (FCF)	0.8	0.5	(0.2)	1.1	(0.7)	(2.1)	0.5	22.7	6.5	10.0	11.4	12.5
Ord Dividends	0.0	0.0	(1.5)	(3.2)	(2.8)	0.0	(0.4)	(1.2)	(1.9)	(2.8)	(3.3)	(3.6)
Equity, (Debt Paydown)	(0.8)	0.0	0.0	0.0	0.0	0.0	0.0	(1.0)	(2.0)	0.0	0.0	0.0
Net Cashflow	0.0	0.5	(1.8)	(2.2)	(3.6)	(2.1)	0.1	20.5	2.6	7.2	8.1	8.9
DIRECTORS												
EXECUTIVES												
Shares (m)			Shares (m)									
David Williams (Chairman)	23.4		John Sharman (MD)	0.6								
Allan McCallum	0.5											
Dr Harry Ower	0.2											
Max Johnston	0.0											
Leon Hoare	0.0		Total	24.7								
DIVISIONAL SUMMARY (\$m)												
Y/End June	FY09A	FY10A	FY11A	FY12A	FY13A	FY14A	FY15F	FY16F	FY17F	FY18F	FY19F	FY20F
Revenue												
PHARMACEUTICALS	5.4	4.9	6.3	6.6	6.3	5.3	6.4	13.4	23.0	32.7	39.9	41.5
MEDICAL DEVICES	3.0	3.0	3.6	4.3	5.1	3.5	4.6	6.4	8.6	9.5	10.4	10.7
VETERINARY	0.3	0.4	0.3	0.4	0.3	0.5	0.5	0.5	0.6	0.6	0.6	0.6
CORPORATE	0.1	0.0	0.0	0.0	0.0	0.0	0.0	21.3	0.0	0.0	0.0	0.0
Total	8.7	8.3	10.2	11.3	11.7	9.3	11.5	41.6	32.2	42.8	50.9	52.9
EBITDA												
PHARMACEUTICALS	1.5	1.4	1.9	2.9	3.0	2.4	3.2	5.4	9.4	13.1	15.8	16.4
MEDICAL DEVICES	0.7	0.8	1.2	1.3	1.4	0.1	1.0	1.8	2.8	4.7	5.5	5.7
VETERINARY	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2
CORPORATE	-1.1	-1.0	-0.8	-0.4	-1.4	-1.5	-1.6	-1.6	-1.7	-1.8	-1.9	-1.9
MILESTONE							0.0	21.3	0.0	0.0	0.0	0.0
Total	1.2	1.3	2.5	3.9	3.2	1.1	2.7	26.9	10.6	16.2	19.6	20.3

Medical Developments		Date:		30-Jun-15								
		Model Updated:		30-Jun-15								
KEY RATIOS												
Y/end June	FY09A	FY10A	FY11A	FY12A	FY13A	FY14A	FY15F	FY16F	FY17F	FY18F	FY19F	FY20F
EBITDA Margin (%)	15.2%	19.5%	24.7%	36.0%	29.0%	11.7%	22.6%	28.2%	35.1%	39.5%	39.5%	41.3%
NPAT Margin (%)	9.3%	10.6%	17.1%	23.9%	19.7%	9.3%	14.8%	18.5%	23.2%	25.5%	25.0%	25.6%
ROE (%) y/e	7.4%	7.8%	14.0%	22.1%	19.8%	8.3%	13.7%	68.9%	23.6%	28.0%	26.8%	24.1%
ROI (%) y/e	10.8%	15.3%	26.8%	39.5%	25.5%	6.2%	16.9%	311.1%	114.0%	161.3%	172.2%	167.5%
NTA per share (\$)	0.10	0.12	0.16	0.20	0.22	0.26	0.28	0.65	0.72	0.90	1.11	1.30
Eff Tax Rate (%)	-29.4%	-30.1%	-30.1%	-27.2%	-27.6%	36.7%	-27.9%	-28.2%	-27.8%	-27.9%	-27.9%	-26.9%
Interest Cover (x)	104.4	7.2	(23.2)	(22.2)	(77.1)	5.8	28.3	(41.2)	(11.4)	(11.7)	(10.8)	(9.1)
Net Gearing (%)	0.0%	0.0%	0.0%	0.0%	12.3%	35.1%	33.4%	9.5%	2.0%	1.6%	1.3%	1.1%
VALUATION PARAMETERS												
Y/end June	FY09A	FY10A	FY11A	FY12A	FY13A	FY14A	FY15F	FY16F	FY17F	FY18F	FY19F	FY20F
EPS Adj (cps)	1.6	1.8	3.4	5.4	4.1	1.5	2.6	33.5	13.5	19.6	22.9	24.6
PE Adj (x)			81.0	50.5	67.1	182.3	105.4	8.2	20.4	14.1	12.0	11.2
Enterprise Value (\$m)	158.5	157.0	155.2	155.3	159.4	160.8	160.6	139.1	134.5	127.3	119.2	110.3
EV / EBITDA (x)	119.5	97.1	61.7	38.2	46.9	147.6	64.7	5.2	12.6	8.2	6.5	5.7
EV / EBIT (x)	126.5	103.1	64.9	40.6	50.4	208.5	74.2	5.3	13.6	8.8	7.1	6.3
Price / NTA			17.0	13.5	12.3	10.7	9.7	4.2	3.8	3.0	2.5	2.1
DPS (cps)	0.0	0.0	3.0	6.0	5.0	0.0	0.7	2.1	3.4	4.9	5.7	6.2
Dividend Yield (%)	0.0%	0.0%	1.1%	2.2%	1.8%	0.0%	0.2%	0.8%	1.2%	1.8%	2.1%	2.2%
Franking (%)	0%	0%	100%	100%	100%	0%						
Free Cash / Share (c)	1.4	0.9	-0.4	1.8	-1.2	-3.6	0.9	39.3	11.3	17.4	19.8	21.6
Price / FCF PS (x)		294.0	-741.9	150.9	-220.2	-77.1	304.6	7.0	24.3	15.8	13.9	12.7
DCF VALUATION & SENSITIVITY												
PV of Cashflows 2015 to 2020	26.74	Risk Free Rate	4.0%									
		Equity Risk Premium	8.5%									
PV of Term Year Cashflow	177	Equity Beta	0.7									
		Cost of Equity	10.0%									
		After Tax WACC	9.6%									
Less OEI at FY14 y/e	0											
(Net Debt) or Cash	(2)	Terminal Growth	5.5%									
PV of Equity	202											
PV of Equity per share	\$ 3.50											
MAJOR SHAREHOLDERS												
	%											
David Williams	40.5%											
AMP	5.2%											
		Top 20	65%									
GROWTH PROFILE (YoY)												
Y/end June	FY09A	FY10A	FY11A	FY12A	FY13A	FY14A	FY15F	FY16F	FY17F	FY18F	FY19F	FY20F
Sales (\$m)		-5%	30%	19%	-1%	-27%	36%	26%	28%	27%	23%	5%
EBITDA inc EAT (\$m)		22%	56%	62%	-17%	-68%	128%	980%	-60%	46%	17%	6%
EBIT (\$m)		22%	57%	60%	-17%	-76%	181%	1113%	-62%	46%	16%	5%
NPAT (\$m)				67%	-20%	-62%	73%	1184%	-60%	45%	17%	8%
EPS (cps)				60%	-25%	-63%	73%	1184%	-60%	45%	17%	8%
DPS (cps)				100%	-17%	-100%	n/a	221%	61%	45%	17%	8%

Contact Information

Head Office: Level 12, 15 William St Melbourne VIC 3000 Australia. Tel: +61 3 8633 9831

PAC Partners – Executive Team

CRAIG STRANGER

Managing Director

+613 8633 9832

cstranger@pacpartners.com.au

SEAN KENNEDY

Corporate Finance

+613 8633 9836

skennedy@pacpartners.com.au

ANTHONY STANI

Corporate Finance

+613 8633 8251

astani@pacpartners.com.au

PhillipCapital – Institutional Sales Team

JAMES WILSON

Head of Institutional Dealing

+61 2 9233 9607

jwilson@phillipcapital.com.au

MARK PASHLEY

Head of Trading

+61 2 9233 9641

mpashley@phillipcapital.com.au

BRENDAN FOGARTY

Corporate Sales

+613 8633 9866

bfogarty@pacpartners.com.au

TOM FAIRCHILD

Corporate Sales

+613 8633 8255

tfairchild@pacpartners.com.au

EDWIN BULESCO

Corporate Sales - Perth

+61 (0)431 567 550

ebulesco@pacpartners.com.au

RICHARD CLOSE

Institutional Dealing

+61 3 8633 9883

rclose@phillipcapital.com.au

BROOKE PICKEN

Equity Capital Markets

+613 8633 9831

bpicken@pacpartners.com.au

PAUL JENSZ

Director, Senior Industrial Analyst

+613 8633 9864

pjensz@pacpartners.com.au

ANDREW SHEARER

Senior Resources Analyst

+613 8633 9862

ashearer@pacpartners.com.au

Recommendation Criteria

Investment View

PAC Partners Investment View is based on an absolute 1-year total return equal to capital appreciation plus yield.

Buy	Hold	Sell
>20%	20% – 5%	<5%

A Speculative recommendation is when a company has limited experience from which to derive a fundamental investment view.

Risk Rating

PAC Partners has a four tier Risk Rating System consisting of: Very High, High, Medium and Low. The Risk Rating is a subjective rating based on: Management Track Record, Forecasting Risk, Industry Risk and Financial Risk including cash flow analysis.

Disclosure of Economic Interests

The views expressed in this research report accurately reflect the personal views of about the subject issuer and its securities. No part of the analyst's compensation was, is or will be directly or indirectly related to any recommendation or view expressed in this report.

The following person(s) do not hold an economic interest in the securities covered in this report or other securities issued by the subject issuer which may influence this report:

1. the author of this report
2. a member of the immediate family of the author of this report

Disclaimer

PAC Partners Pty Ltd. ("PAC Partners" or "PAC") is a Corporate Authorised Representative of PAC Asset Management Pty Ltd holder of an Australian Financial Services Licence (AFSL No. 335 374). PAC Partners is a business partner of Phillip Capital Limited ("PhillipCapital") (AFSL 246 827).

The information contained in this report is provided by PAC Partners to Wholesale Investors only. Retail investor and third party recipients should not rely, directly or indirectly, on this report. Users of this research report should not act on any content or recommendation without first seeking professional advice. Whilst the report has been prepared with all reasonable care from sources which we believe are reliable, no responsibility or liability is accepted by PAC Partners, for any errors or omissions or misstatements however caused. Any opinions, forecasts or recommendations reflect our judgement and assumptions at the date of publication or broadcast and may change without notice. This report is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. This publication contains general securities advice. In preparing our Content it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual user. Access of this report does not create a client relationship between PAC Partners and the user. Before making an investment decision on the basis of this advice, you need to consider, with or without the assistance of a securities adviser, whether the advice in this publication is appropriate in light of your particular investment needs, objectives and financial situation. PAC and its associates within the meaning of the Corporations Act may hold securities in the companies referred to in this publication. PAC believes that the advice and information herein is accurate and reliable, but no warranties of accuracy, reliability or completeness are given (except insofar as liability under any statute cannot be excluded). No responsibility for any errors or omissions or any negligence is accepted by PAC or any of its directors, employees or agents. Any content is not for public circulation or reproduction, whether in whole or in part and is not to be disclosed to any person other than the intended user, without the prior written consent of PAC Partners.

Disclosure of Corporate Involvement

PAC Partners has in the previous 12 months carried out work on behalf of the Company described in this report and received fees on commercial terms for its services. PAC Partners and/or their associates may own securities of the Company described in this report. PAC Partners does and seeks to do business with companies covered in the research. PAC may receive commissions from dealing in securities. As a result, investors should be aware that PAC Partners may have a conflict of interest that could affect the objectivity of this report.

The preparation of this report was funded by ASX in accordance with the ASX Equity Research Scheme. This report was prepared by PAC Partners and not by ASX. ASX does not provide financial product advice. The views expressed in this report do not necessarily reflect the views of ASX. No responsibility or liability is accepted by ASX in relation to this report.

For more information about PAC Partners please visit www.pacpartners.com.au