

Medlab Clinical

FY22 results update

FY23 a year of clinical development

Pharma and biotech

2 September 2022

Price **A\$12.1**
Market cap **A\$28m**

Net cash (A\$m) at end-June 2022	5.2
Shares in issue	2.3m
Free float	69%
Code	MCD
Primary exchange	ASX
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(1.4)	12.6	(49.0)
Rel (local)	0.4	18.7	(43.7)
52-week high/low		A\$30.0	A\$6.6

Business description

Based in Australia, Medlab Clinical is developing therapeutics using its proprietary delivery platform NanoCelle. Its most advanced programme is in cancer pain management with lead drug candidate NanaBis, a medicinal cannabis product for cancer-related bone pain.

Next events

FDA IND submission	H2 CY22
NanoCelle RNA programme	November 2022
government read out data	

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As part of its transformation into a pureplay biotech, Medlab is preparing an IND submission for NanaBis and plans to begin clinical trials with both NanaBis and NanoCBD in the next 12 months. In FY22, Medlab's total revenue from continued operations increased 35.3% y-o-y, however, total group revenue was up 5.3% y-o-y, due to the licensing of the nutraceutical business in October 2021. The net cash outflow from operating activities in FY22 was A\$9.3m, in line with our estimates. We see a potential Nasdaq listing as providing support for Medlab and the development pipeline. We value Medlab at A\$236.1m or A\$103.5/share, from A\$239.8m or A\$105/share (adjusted for the share consolidation) previously.

Year end	Revenue (A\$m)	PBT* (A\$m)	EPS* (A\$)	DPS (A\$)	P/E (x)	Yield (%)
06/21	8.1	(12.4)	(6.3)	0.0	N/A	N/A
06/22	6.0	(8.4)	(3.1)	0.0	N/A	N/A
06/23e	7.7	(8.8)	(3.8)	0.0	N/A	N/A
06/24e	7.7	(9.6)	(4.2)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

NanaBis: DMF ready for FDA submission

After much effort over FY22, Medlab has prepared a Drug Master File (DMF) for the use of synthetic CBD and dronabinol (synthetic THC) in its NanaBis formulation. The DMF will support the company's Investigational New Drug (IND) application to the FDA for the commencement of a Phase III study for NanaBis in the treatment of cancer-induced bone pain. We expect Medlab to approach the FDA with an IND application in H2 CY22. We believe the timely commencement of a Phase III trial represents a significant catalyst for the company.

FY22 results

Revenue from continued operations grew 35% y-o-y to A\$6.0m in FY22 and the net loss stood at A\$8.4m. However, management expects an R&D refund of A\$3.5m by H123 as part of an [Advanced and Overseas Finding](#) rebate for NanaBis development. In August 2022, Medlab consolidated its existing ASX shares (150:1) in preparation to potentially issue up to 4m new securities on the Nasdaq.

Management plans to use the proceeds of the potential initial public offering to further develop NanaBis (cancer bone pain), NanoCBD (stress) and MDC2000 (depression).

Valuation: A\$236.1m or A\$103.5 per share

We value Medlab at A\$236.1m or A\$103.5 per share, lower than previously (A\$239.8m or A\$105 per share, adjusted for the share consolidation) mainly due to the change in net cash (A\$5.2m at end-June 2022). Our model is based on a risk-adjusted NPV calculation for NanaBis in the treatment of cancer-induced bone pain only. We have made minor changes to our estimates following the FY22 results announcement. As management expects a monthly cash burn rate of ~A\$1m, we estimate the company has cash to fund its operations to Q223. We note that funds from the potential Nasdaq listing could lengthen our runway estimate.

Exhibit 1: Financial summary

Accounts: Local GAAP; year end June; A\$000s	2020	2021	2022	2023e	2024e
Income statement					
Sales	2,848	4,399	1,282	1,282	1,282
Other income	2,965	3,725	4,749	6,400	6,400
Total revenues	5,814	8,125	6,031	7,682	7,682
Raw materials and consumables used	(2,805)	(2,940)	(336)	(336)	(336)
Employee benefits expense	(6,666)	(7,935)	(7,105)	(7,460)	(7,833)
Amortisation and depreciation	(961)	(873)	(851)	(851)	(851)
Professional and consulting fees	(1,257)	(1,731)	(1,858)	(1,951)	(2,049)
Operating lease costs	(199)	(186)	(207)	(196)	(202)
Selling & marketing expenses	(1,750)	(771)	(187)	(196)	(206)
R&D / trial expenses	(1,947)	(2,103)	(1,503)	(1,579)	(1,658)
Other Operating Expenses	(3,520)	(3,850)	(2,270)	(3,844)	(4,036)
Share-based payments	0	0	0	0	0
Exceptional items	0	0	0	0	0
Operating profit/(loss)	(13,291)	(12,264)	(8,287)	(8,732)	(9,489)
Finance costs	(197)	(139)	(102)	(102)	(102)
Reported PBT	(13,488)	(12,403)	(8,388)	(8,834)	(9,591)
PBT - normalised	(13,488)	(12,403)	(8,388)	(8,834)	(9,591)
Income tax expense	0	0	0	0	0
Minority Interests	(89)	(79)	(66)	(66)	(66)
Reported net income	(13,399)	(12,324)	(7,162)	(8,767)	(9,524)
Basic average number of shares, m	1.5	2.0	2.3	2.3	2.3
Basic EPS (A\$)	(8.90)	(6.27)	(3.14)	(3.84)	(4.18)
Basic EPS - adjusted (A\$)	(8.90)	(6.27)	(3.14)	(3.84)	(4.18)
Diluted EPS (A\$)	(8.90)	(6.27)	(3.14)	(3.84)	(4.18)
Balance sheet					
Property, plant and equipment	592	483	344	373	402
Right of use assets	2,288	1,601	1,071	1,071	1,071
Other non-current assets	483	483	709	709	709
Total non-current assets	3,364	2,567	2,125	2,153	2,182
Cash and equivalents	9,063	13,435	5,191	1,000	1,000
Trade and other receivables	3,379	3,356	3,869	3,869	3,869
Inventories	1,473	792	80	200	200
Other current assets	509	496	102	102	102
Total current assets	14,425	18,079	9,242	5,171	5,171
Non-current loans and borrowings*	0	0	0	4,723	14,276
Provisions	478	233	186	186	186
Lease liabilities	1,630	989	555	555	555
Other non-current liabilities	0	0	0	0	0
Total non-current liabilities	2,107	1,222	741	5,464	15,016
Trade and other payables	3,218	2,991	1,462	1,462	1,462
Employee benefits	504	516	541	541	541
Borrowings	94	68	0	0	0
Lease liabilities	610	638	568	568	568
Total current liabilities	4,426	4,519	2,877	2,877	2,877
Equity attributable to company	11,397	15,144	8,081	(686)	(10,210)
Cashflow statement					
Net cash used in operating activities	(10,422)	(10,353)	(9,268)	(8,887)	(9,524)
Capex	(243)	(83)	(29)	(29)	(29)
Cash used in investing activities (CFIA)	(243)	(83)	1,747	(29)	(29)
Net proceeds from issue of shares	10,398	15,449	0	0	0
Movements in debt	(1,513)	(26)	(68)	4,723	9,553
Other financing activities	(563)	(612)	(657)	0	0
Cash flow from financing activities	8,321	14,810	(725)	4,723	9,553
Increase/(decrease) in cash and equivalents	(2,379)	4,372	(8,244)	(4,193)	0
Cash and equivalents at beginning of period	11,444	9,065	13,437	5,193	1,000
Cash and equivalents at end of period	9,065	13,437	5,193	1,000	1,000
Net (debt) cash	8,969	13,367	5,191	(3,723)	(13,276)

Source: Medlab accounts, Edison Investment Research. Note: *We use long-term debt in our model instead of an equity issue.

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