

1H13: profit in line, awaiting P3 trial result

2Q13 Fondaparinux profit solid, Phase III HA-Irinotecan trial fully recruited

February 27, 2013

Rating Remains	Buy
Target price Remains	AUD 0.55
Closing price February 26, 2013	AUD 0.32
Potential upside	+71.9%

Action: 1H13 – ACL builds market share

ACL reported a 1H13A net loss of AUD5.9mn, exceeding our forecast for a net loss of AUD4.7mn. Differences compared to our forecasts were: 1) higher-than-expected R&D tax incentive benefit; 2) higher-than-expected corporate costs due to demerger expenses; and 3) lower-than-expected interest income.

Catalyst: IMS sales data indicate ACL's sales are growing

Under the terms of ACL's agreement with its manufacturing and marketing partner, Dr Reddy's (DRRD), ACL will receive 50% of operating profits from US sales of generic fondaparinux indefinitely. ACL has announced that its 2QFY13 (4QCY12) net sales of Fondaparinux in the US market amounted to USD12.3mn. These sales were net of chargebacks, discounts and rebates. According to ACL, its average market share for 4QCY12 was 25%, compared with 22% for 3QCY12.

Expecting fondaparinux revenues in FY13F

Changes to our forecasts include: 1) inclusion of the higher than expected R&D tax incentive; 2) inclusion of the demerger expenses; and 3) lower interest income. As a result, EPS has decreased to -3.5cps for FY13F and is essentially unchanged for FY14F.

Valuation: Buy rating maintained, TP remains AUD0.55

Our AUD0.55 target price is based on the risk-weighted valuation of the company's opportunities. In our view, ACL has: 1) a de-risked business model as it has generic fondaparinux on market; and 2) potential medium earnings upside surprise from entry to new markets.

30 Jun	FY12	FY13F		FY14F		FY15F	
Currency (AUD)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	0	10	15	17	20	30	33
Reported net profit (mn)	-15	-9	-11	0	0	12	11
Normalised net profit (mn)	-15	-9	-11	0	0	12	11
FD normalised EPS	-6.23c	-2.76c	-3.53c	0.11c	0.09c	3.42c	3.12c
FD norm. EPS growth (%)	na	na	na	na	na	2,913.4	3,555.0
FD normalised P/E (x)	na	N/A	na	N/A	>100	N/A	10.3
EV/EBITDA (x)	na	N/A	na	N/A	60.3	N/A	3.5
Price/book (x)	3.7	N/A	3.5	N/A	3.5	N/A	3.2
Dividend yield (%)	na	N/A	na	N/A	na	N/A	6.8
ROE (%)	-70.0	-29.8	-39.7	1.2	0.9	33.1	32.5
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash	net cash	net cash

Source: Company data, Nomura estimates

Key company data: See page 2 for company data and detailed price/index chart.

Anchor themes

The percentage of the population in the older age group in developed countries is increasing. Improved longevity and the aging population demographic will likely lead to growing demand for treatments and surgeries, which leads to increased need for anti-clotting products, the target market for generic fondaparinux.

Nomura vs consensus

There is minimal consensus data available.

Research analysts

Australia Health Care & Pharmaceuticals

Zara Lyons - NAL
zara.lyons@nomura.com
 +61 2 8062 8407

Dr David Stanton - NAL
david.stanton@nomura.com
 +61 2 8062 8410

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Key data on Alchemia

Income statement (AUDmn)

Year-end 30 Jun	FY11	FY12	FY13F	FY14F	FY15F
Revenue	0	0	15	20	33
Cost of goods sold	-4	0	0	0	0
Gross profit	-4	0	15	20	33
SG&A	-12	-17	-27	-21	-18
Employee share expense					
Operating profit	-15	-16	-12	-1	15
EBITDA	-13	-15	-10	1	17
Depreciation	0	0	0	0	0
Amortisation	-1	-1	-1	-1	-1
EBIT	-15	-16	-12	-1	15
Net interest expense	0	0	0	1	1
Associates & JCEs					
Other income	1	0	0	0	0
Earnings before tax	-14	-15	-12	0	16
Income tax	0	0	0	0	-5
Net profit after tax	-13	-15	-11	0	11
Minority interests	0	0	0	0	0
Other items					
Preferred dividends					
Normalised NPAT	-13	-15	-11	0	11
Extraordinary items	0	0	0	0	0
Reported NPAT	-13	-15	-11	0	11
Dividends	0	0	0	0	-8
Transfer to reserves	-13	-15	-11	0	3

Valuation and ratio analysis

Reported P/E (x)	na	na	na	>100	10.3
Normalised P/E (x)	-4.6	-5.1	-9.1	375.4	10.3
FD normalised P/E (x)	na	na	na	>100	10.3
FD normalised P/E at price target (x)	na	na	na	>100	17.7
Dividend yield (%)	na	na	na	na	6.8
Price/cashflow (x)	na	na	na	50.2	8.7
Price/book (x)	3.3	3.7	3.5	3.5	3.2
EV/EBITDA (x)	na	na	na	60.3	3.5
EV/EBIT (x)	na	na	na	na	4.0
Gross margin (%)	na	100.0	100.0	100.0	100.0
EBITDA margin (%)	na	-4,306.5	-71.6	5.3	50.2
EBIT margin (%)	na	-4,819.9	-83.5	-3.3	45.0
Net margin (%)	na	-4,475.7	-78.2	1.5	34.2
Effective tax rate (%)	na	na	na	30.0	30.0
Dividend payout (%)	na	na	na	0.0	70.0
Capex to sales (%)	na	0.0	0.0	0.0	0.0
Capex to depreciation (x)	0.0	0.0	0.0	0.0	0.0
ROE (%)	-53.4	-70.0	-39.7	0.9	32.5
ROA (pretax %)	-57.5	-83.0	-64.1	-3.5	81.2

Growth (%)

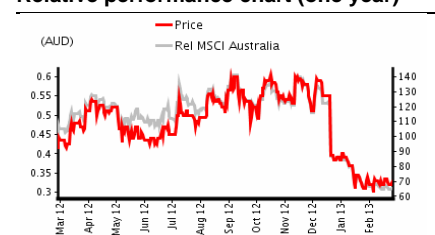
Revenue	na	na	4,210.7	38.5	64.9
EBITDA	na	na	na	na	1,466.6
EBIT	na	na	na	na	na
Normalised EPS	na	na	na	na	3,555.0
Normalised FDEPS	na	na	na	na	3,555.0

Per share

Reported EPS (AUD)	-7.02c	-6.23c	-3.53c	0.09c	3.12c
Norm EPS (AUD)	-7.02c	-6.23c	-3.53c	0.09c	3.12c
Fully diluted norm EPS (AUD)	-7.02c	-6.23c	-3.53c	0.09c	3.12c
Book value per share (AUD)	0.10	0.09	0.09	0.09	0.10
DPS (AUD)	0.00	0.00	0.00	0.00	0.02

Source: Company data, Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (AUD)	3.2	-42.9	-22.9
Absolute (USD)	1.8	-43.8	-26.3
Relative to index	-0.7	-56.7	-40.4
Market cap (USDmn)	92.3		
Estimated free float (%)	100.0		
52-week range (AUD)	.62/.29		
3-mth avg daily turnover (USDmn)	0.23		
Major shareholders (%)			
Orbis Investment Management Ltd.	13.0		
Phillip Capital Management (Singapore) Ltd.	2.7		

Source: Thomson Reuters, Nomura research

Notes

ACL is well positioned to generate earnings from US sales of fondaparinux

Cashflow (AUDmn)

Year-end 30 Jun	FY11	FY12	FY13F	FY14F	FY15F
EBITDA	-13	-15	-10	1	17
Change in working capital	10	4	0	0	0
Other operating cashflow	-8	-1	-1	1	-4
Cashflow from operations	-12	-12	-11	2	13
Capital expenditure					
Free cashflow	-12	-12	-11	2	13
Reduction in investments					
Net acquisitions	0	0	0	0	0
Reduction in other LT assets					
Addition in other LT liabilities					
Adjustments	9	0	0	0	0
Cashflow after investing acts	-2	-11	-12	2	13
Cash dividends	0	0	0	0	-8
Equity issue	0	20	20	0	0
Debt issue	0	0	0	0	0
Convertible debt issue					
Others	0	2	2	0	0
Cashflow from financial acts	0	22	22	0	-8
Net cashflow	-2	10	10	2	5
Beginning cash	5	4	14	24	26
Ending cash	4	14	24	26	31
Ending net debt	-4	-14	-24	-26	-31

Source: Company data, Nomura estimates

Notes

ACL had a AUD20mn equity raising in FY12A. We forecast another capital raising in FY13F

Balance sheet (AUDmn)

As at 30 Jun	FY11	FY12	FY13F	FY14F	FY15F
Cash & equivalents	4	14	24	26	31
Marketable securities					
Accounts receivable	0	0	3	3	4
Inventories	0	0	0	0	0
Other current assets	2	2	2	2	2
Total current assets	6	16	28	30	36
LT investments	0	0	0	0	0
Fixed assets	1	0	0	0	0
Goodwill	6	6	6	6	6
Other intangible assets	12	10	9	8	6
Other LT assets	0	0	0	0	0
Total assets	24	32	43	44	49
Short-term debt	0	0	0	0	0
Accounts payable	1	3	4	5	6
Other current liabilities	1	1	3	3	3
Total current liabilities	2	5	7	8	9
Long-term debt	0	0	0	0	0
Convertible debt					
Other LT liabilities	4	3	3	3	3
Total liabilities	6	8	10	11	12
Minority interest	0	0	0	0	0
Preferred stock	0	0	0	0	0
Common stock	118	139	159	159	159
Retained earnings	-103	-118	-130	-129	-126
Proposed dividends					
Other equity and reserves	4	4	4	4	4
Total shareholders' equity	19	24	33	33	37
Total equity & liabilities	24	32	43	44	49

Notes

ACL had net cash of AUD6.2mn as at 31 December 2012

Liquidity (x)

Current ratio	3.60	3.35	4.03	3.93	4.15
Interest cover	na	na	na	na	na

Leverage

Net debt/EBITDA (x)	na	na	na	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

Activity (days)

Days receivable	na	209.1	33.6	51.8	37.7
Days inventory	0.0	na	na	na	na
Days payable	34.3	na	na	na	na
Cash cycle	na	na	na	na	na

Source: Company data, Nomura estimates

1H13 – building market share

ACL's key product is fondaparinux, a blood-clotting agent. ACL sold the global licensing rights to distribute fondaparinux to Dr Reddy's Laboratories (DRRD IN, INR1,769, Buy). Under the terms of ACL's agreement with its manufacturing and marketing partner, Dr Reddy's Laboratories, ACL will receive 50% of operating profits from US sales of generic fondaparinux after certain development costs have been recouped by its partner.

ACL reported a 1H13A net loss of AUD5.9mn, exceeding our forecast for a net loss of AUD4.7mn. Differences compared to our forecasts were: 1) higher-than-expected R&D tax incentive; 2) higher-than-expected corporate costs due to demerger expenses; and 3) lower-than-expected interest income.

Changes to our forecasts include: 1) inclusion of the higher-than-expected R&D tax incentive; 2) inclusion of demerger expenses (this potential demerger has been deferred); and 3) lower interest income. As a result of these changes, EPS has decreased to -3.5cps for FY13F and is essentially unchanged for FY14F. This is shown below.

Fig. 1: ACL – changes to forecasts

	1H13A			FY13F			FY14F		
	Fcast	Actual	Diff	Prev	Rev	Diff	Prev	Rev	Diff
EBIT (AUDmn)	(7.1)	(6.2)	nm	(12.8)	(12.1)	nm	(4.4)	(0.7)	nm
NPAT (AUDmn)	(4.7)	(5.9)	nm	(8.9)	(11.4)	nm	0.4	0.3	nm
EPS (c)	(1.7)	(2.1)	nm	(2.8)	(3.5)	nm	0.1	0.1	nm
DPS (c)	0.0	0.0	nm	0.0	0.0	nm	0.0	0.0	nm
Net op cash flow (AUDmn)	(5.6)	(7.8)	nm	(10.4)	(12.3)	nm	(1.9)	1.3	nm

Source: Company data, Nomura estimates

Background – who are ACL?

Alchemia (ACL) is a drug discovery and development company. The company's lead drug, fondaparinux, is a generic version of GlaxoSmithKline's (GSK LN, GBP14.58, Neutral) Arixtra, a synthetic anticoagulant mainly used for the prevention of deep vein thrombosis. It was launched in July 2011 in the US by ACL's marketing partner Dr Reddy's Laboratories.

In addition, ACL is developing other potential products. ACL's pipeline of assets is built on two platform technologies: HyACT (targeted cancer delivery) and VAST (drug discovery). The primary objective of the HyACT technology is to develop a new generation of anti-cancer drugs which demonstrates better efficacy. The lead product from the HyACT platform is HA-irinotecan, which is currently in a pivotal Phase III clinical trial that commenced recruitment in January 2012.

Based in Brisbane, Australia, Alchemia is a small-molecule biopharmaceutical company

Key insights

- **Outlook:** Alchemia expects to receive 50% of operating profits from the sales of fondaparinux in the US market, after certain development costs have been recouped by its partner, Dr Reddy's Laboratories. ACL expects to receive a 2QFY13 profit share of AUD2.9mn net of its AUD0.5mn process contribution. This compares with our FY13 Fondaparinux profit forecast of AUD9.7mn. Dr Reddy's and ACL will jointly invest to reduce the cost of the active pharmaceutical ingredient (API). The two companies have agreed to split additional costs of USD10mn equally. ACL's cost share will be deducted from ACL's net quarterly profit receipts over the next eight quarters at a rate of USD500K per quarter. The cost benefits of this commenced in 1Q13. ACL provided an outlook statement at its 2012 AGM presentation in which ACL stated that it anticipates stable share in US retail and an increase in Institutional market share. ACL also expects to benefit from a reduction in its cost of goods, which is expected to improve profitability of the Fondaparinux business;

- **EU application for fondaparinux:** ACL has filed an application with the European Medicines Agency (EMA) for approval of fondaparinux in the EU in April 2012. This was shortly after the expiry of 10 years of data exclusivity. Management has previously stated that approval times in the EU are generally shorter than in the US and that the launch is anticipated sometime in the calendar year 2013. ACL and its partner Dr Reddy's Laboratories intend to focus on commercialising fondaparinux in Rest of World markets where Arixtra is already selling and where its fondaparinux can be sold as a typical generic drug.

HyACT

ACL is developing potential anticancer products. The lead product from this HyACT platform is HA-irinotecan. ACL's HA-irinotecan preferentially targets the cell surface receptor CD44. CD44 is thought to be a marker of cancer stem cells (CSC), so targeting this may target CSCs. Recently, research has focused on the theory that many cancers are driven by transformed CSCs (i.e. early-stage cancer cells).

What is irinotecan?

Irinotecan is a semisynthetic camptothecin derivative that works by inhibiting the topoisomerase 1 enzyme, which is involved in cancer cell replication. Irinotecan is a standard therapy for patients with metastatic disease who have failed 5-Fluorouracil (5-FU)-based therapy. Single-agent irinotecan can be given according to a variety of schedules, including 350 mg/m² every 3 weeks, which demonstrates similar efficacy to other alternatives.

What is HA-irinotecan?

In an attempt to increase the benefit associated with irinotecan-based treatment and/or to reduce the dose-limiting toxicity often associated with this therapy, irinotecan has been formulated with the naturally ubiquitous polysaccharide, hyaluronan (HA), resulting in ACL's proprietary product (HA-irinotecan). This process is called HyACT. This product utilises the physiochemical and biologic properties of HA as a macromolecular carrier of drugs to solid tumours. After intravenous administration, the HA-drug combination enters the tumour and aggregates, thereby forming a vascular microembolism within the tumour where the intra-tumoural drug depot persists, increasing drug accumulation and retention. The increased intra-tumoural drug concentration enables the increased internalization of the anti-cancer agent via a CD44-mediated mechanism, ultimately enhancing efficacy. A secondary effect is the diversion of the drug from healthy tissue, leading to a reduction in some commonly observed treatment toxicities.

What is CD44?

In many cancers of epithelial origin there is an up-regulation of CD44, a receptor that binds hyaluronic acid (hyaluronan or HA). In other cancers, HA in the tumour matrix is over-expressed. Both CD44 on cancer cells and HA in the matrix have been targets for anti-cancer therapy. Even though CD44 is expressed in normal epithelial cells and HA is part of the matrix of normal tissues, selective targeting to cancer is possible. This is because macromolecular carriers predominantly connect and deliver their payload into the tumour and not normal tissue; thus CD44-HA targeted carriers administered intravenously localize preferentially into tumours.

Completes recruiting for HA-Irinotecan trial

ACL has recently recruited the 390th patient to its pivotal Phase III clinical trial of HA-Irinotecan. 390 patients have been recruited at 76 sites since the study began. The study's primary objective is to demonstrate that HA-Irinotecan is superior against irinotecan alone in metastatic colorectal cancer patients, as indicated by an increase in Progression-Free Survival (PFS) of six weeks or more. The primary endpoint of this double blind trial will be reached when 350 patients have experienced disease progression.

Patients on the trial receiving treatment for longer than expected – potentially positive sign ...

However, statistical review and modelling on the available blinded data suggests that on average, patients on this trial are continuing treatment for longer than anticipated, before

their disease progresses. This means that the primary endpoint is likely to be met in 1HCY14. We assume HA-irinotecan will get to market in FY16F.

Fig. 2: Clinical trials of antibody anti-CD44 conjugates

Antibody	Drug	Injection Method	Cancer Type	Effect
U36	Re-186	Single intravenous	Head and Neck Squamous Cell Carcinoma	Stable disease in 5 of 9 patients, mild myelotoxicity
BIWA 4	Tc-99m	Single intravenous	Head and Neck Squamous Cell Carcinoma	Tumor targeting
BIWA 4	Re-186	Dose escalation	Head and Neck Squamous Cell Carcinoma	Stable disease in 3 of 6 patients, limiting myelotoxicity
BIWA 4	Re-186	Single intravenous	Early Stage Breast Cancer	Moderate tumor identification, no correlation with CD44v6 expression
BIWA 4	Mertansine	Dose escalation	Head and Neck Squamous Cell Carcinoma	Moderate disease stabilization, skin toxicity
BIWA 4	Mertansine	Dose escalation	Head and Neck Squamous Cell Carcinoma	Low interpatient pharmacokinetic variability, skin toxicity
BIWA 4	Mertansine	Dose escalation	CD44v6 Positive Metastatic Breast Cancer	Stable disease in 12 of 24 patients, dose limiting toxicity

Source: PubMed, Nomura research

In summary, several intrinsic characteristics of HA highlighted its potential as a drug delivery vehicle:

- The nature of HA makes it a vehicle for the delivery of smaller molecules;
- There is up-regulation and activation of the HA receptor CD44 on malignant cancer tissue. An active CD44 within the tumoural environment mediates HA internalisation and
- HA is non-immunogenic and considered by regulatory bodies as a biologically inert compound.

Hence, there is a potential opportunity to target the HA tumour matrix to provide a sustained drug source within the tumour. There have been a number of Targeted Drugs and Drug Carriers trials using HA.

Fig. 3: Targeted drugs and drug carriers in vitro

Carrier	Drug	Cancer targeted	Effect
LMW-HA	Paclitaxel	mammary, colon, ovarian	Cytotoxicity, CD44 specific uptake
HMW-HA	Butyrate	mammary, liver, non-small cell lung	Inhibited proliferation, CD44 specific uptake
HMW-HA	Paclitaxel	bladder, ovarian	Cytotoxicity
HMW-HA	Paclitaxel	ovarian	Cytotoxicity
	Carborane		CD44 specific uptake
HMW-HA		colorectal, mammary, ovarian, transitional cell	
LMW-HA, HMW-HA	siRNA	colon	CD44 specific uptake, gene silencing
HMW-HA Fe2O3 Particle	Peptide	alveolar squamous	Peptide internalization
HPMA Polymer, LMW-HA	Doxorubicin	mammary, colon, ovarian	Cytotoxicity, CD44 specific uptake
Liposome HA Oligos	Doxorubicin	melanoma	Cytotoxicity, CD44 specific uptake
HMW-HA PLGA Particle	Doxorubicin	breast	Cytotoxicity, CD44 specific uptake

Source: PubMed, Nomura research

Revised model assumptions

Revisions to our ACL earnings model assumptions are as follows:

- **R&D tax incentive** - We have revised the categorisation of the R&D tax incentive from a tax benefit to other revenue for FY13F-FY15F in line with 1H13A. We assume AUD3.5mn in FY14F and FY15F;
- **Expenses** - We have included AUD3.9mn in NASDAQ listing expenses and demerger costs in FY13F in line with 1H13A; and
- **Net interest income** – This has been calculated in line with period-end cash balances. We have decreased the forecast interest rate earned on cash to 2.0%, from 4.5%, broadly in line with 1H13A.

Result summary

Fig. 4: ACL – result summary

Income statement (AUDmn)	1H12A	2H12A	FY12A	1H13A	2H13F	FY13F	1H13 on 1H12 (%)	2H13 on 2H12 (%)	FY13 on FY12 (%)
Sales revenue	0.0	0.0	0.0	4.5	5.1	9.6	nm	nm	nm
Other revenue	0.2	0.2	0.3	4.9	0.0	4.9	nm	nm	nm
Operating EBITDA	(5.5)	(9.1)	(14.5)	(5.3)	(5.1)	(10.4)	nm	nm	nm
Depreciation & Amortisation	(0.9)	(0.9)	(1.7)	(0.8)	(0.9)	(1.7)	nm	nm	nm
Operating EBIT	(6.3)	(9.9)	(16.2)	(6.2)	(6.0)	(12.1)	nm	nm	nm
Other income	0.0	0.4	0.4	0.0	0.0	0.0	nm	nm	nm
Net interest expense	0.1	0.3	0.4	0.1	0.3	0.4	nm	nm	nm
Pre-tax profit	(6.2)	(9.3)	(15.5)	(6.1)	(5.7)	(11.8)	nm	nm	nm
Tax	0.2	0.2	0.4	0.2	0.2	0.4	nm	nm	nm
Profit after tax	(6.0)	(9.1)	(15.1)	(5.9)	(5.5)	(11.4)	nm	nm	nm
Minorities	0.0	0.0	0.0	0.0	0.0	0.0	nm	nm	nm
Normalised NPAT	(6.0)	(9.1)	(15.1)	(5.9)	(5.5)	(11.4)	nm	nm	nm
Non-recurring items	0.0	0.0	0.0	0.0	0.0	0.0	nm	nm	nm
Reported profit	(6.0)	(9.1)	(15.1)	(5.9)	(5.5)	(11.4)	nm	nm	nm
Per share									
Normalised EPS (cps)	(2.9)	(3.8)	(6.2)	(2.1)	(1.7)	(3.5)	nm	nm	nm
DPS (cps)	0.0	0.0	0.0	0.0	0.0	0.0	nm	nm	nm
Average shares (mn)	204.0	242.2	242.2	280.7	322.3	322.3			
Ratio analysis (%)									
EBITDA margin	nm	nm	nm	(118.7)	(99.2)	(108.2)			
EBIT margin	nm	nm	nm	(19.0)	(17.2)	(18.0)			
Effective tax rate	3.2	2.1	2.6	3.3	3.5	3.4			

Source: Nomura estimates, company data

Valuation and risks

We have valued the generic fondaparinux opportunity in line with our forecasts for growth of the fondaparinux market in the US market, as well as potential entry into other developed markets. In addition, we have valued other opportunities for ACL, namely: HA-irinotecan. Our valuation can be seen in the following figure.

Fig. 5: ACL – valuation methodology

Product	Valuation (AUDps)	Probability (%)	Risk-weighted valuation
Fondaparinux	0.39	100.0	0.39
ACL Oncology	0.38	61.2	0.23
Less R&D	-0.15		-0.15
Cash	<u>0.07</u>		<u>0.07</u>
Valuation	0.69		0.55

Source: Nomura estimates

Risks to our investment view

For ACL's leading product, generic fondaparinux, there is still uncertainty around the potential level of growth in most of its prospective markets. ACL's rate of earnings growth is dependent on the sales and marketing support provided by its partner Dr Reddy's Laboratories. Should ACL enter further clinical trials in new methods of drug delivery, we note that early results give no real enough indication of a product's true viability, and full foresight on future market conditions is difficult to obtain. In addition, there is still a good deal of uncertainty around the viability of ACL's HA-irinotecan in most of its prospective markets. Early clinical trials, although positive, give no real enough indication of a product's true viability and full foresight on future market conditions is difficult to obtain. To date, all preclinical and Phase II trials have shown indications for product viability. As it stands, there have been no significant adverse effects or health issues and Phase II trials indicate a product with the potential for market viability. Therefore, we believe this is an investment opportunity for investors with a higher risk appetite.

Appendix A-1

Analyst Certification

I, Zara Lyons, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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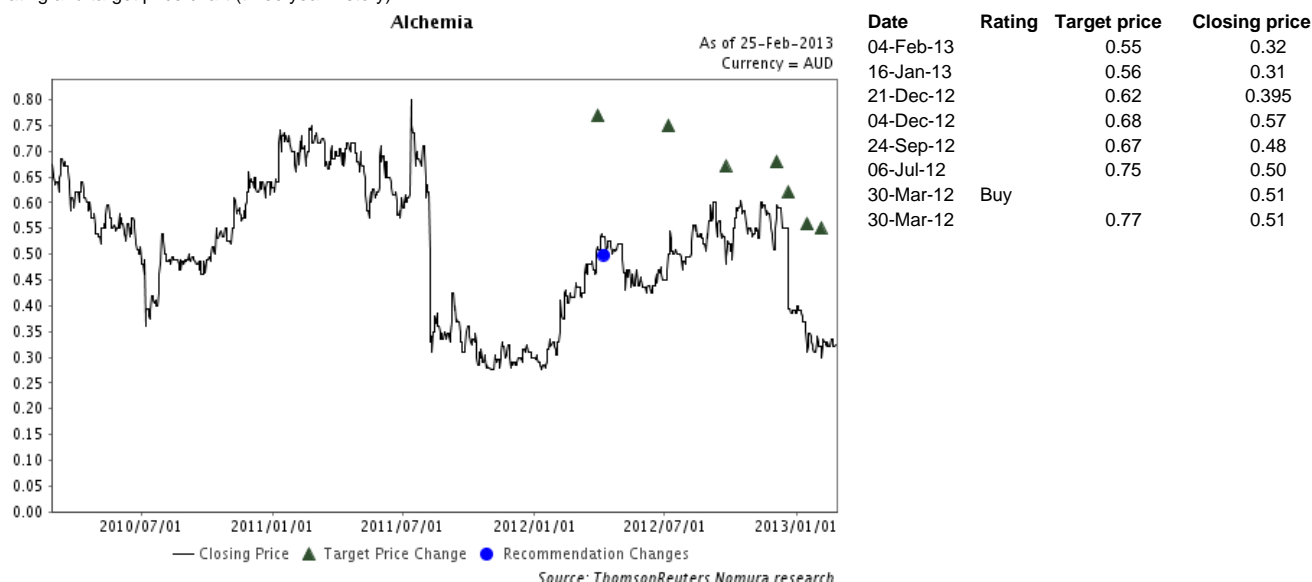
The term "Nomura Group" used herein refers to Nomura Holdings, Inc. or any of its affiliates or subsidiaries, and may refer to one or more Nomura Group companies.

Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Alchemia	ACL AU	AUD 0.32	26-Feb-2013	Buy	Not rated	

Alchemia (ACL AU) AUD 0.32 (26-Feb-2013) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our AUD0.55 TP is based on the risk-weighted valuation of the company's product opportunities plus cash and less R&D expenses. We have valued the generic fondaparinux opportunity (AUD0.39/sh) in line with our forecasts for the growth of the fondaparinux market in the US market, as well as potential entry into other developed markets. In addition, we have valued other opportunities (AUD0.23/sh) for ACL, namely HA-Irinotecan, and have added cash (AUD0.07/sh) and subtracted R&D expenses (-AUD0.15/sh).

Risks that may impede the achievement of the target price For ACL's leading product, generic fondaparinux, there is still uncertainty around the potential level of growth in most of its prospective markets. ACL's rate of earnings growth is dependent on the sales and marketing support provided by its partner Dr Reddy's Laboratories. Should ACL enter further clinical trials in new methods of drug delivery, we note that early results give no real enough indication of a product's true viability, and full foresight on future market conditions is difficult to obtain. For irinotecan, there is still a good deal of uncertainty around the viability of ACL's HA-irinotecan in most of its prospective markets. Early clinical trials, although positive, give no real enough indication of a product's true viability and full foresight on future market conditions is difficult to obtain. To date, all preclinical and Phase II trials have shown indications for product viability. As it stands, there have been no significant adverse effects or health issues and Phase II trials indicate a product with the potential for market viability. Therefore, we believe this is an investment opportunity for investors with a higher risk appetite.

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STOCKS

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SECTORS

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Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan

STOCKS

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