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# Dapsone joins revenue makers; 3Q shows continued progress

## NEED TO KNOW

- Dapsone Gel, 5% launched – more revenues
- 3Q ends with \$5.3m cash, cashflow-positive quarter
- Padagis payments continue – good sign for sales

### Dapsone Gel, 5% launched in April – third revenue-generating product:

Dapsone Gel, 5%, a treatment for acne vulgaris, was launched in the US in April. The product has been launched with Acrux's partner TruPharma, a front-end pharma sales and marketing company. Dapsone Gel, 5% joins Evamist® and Lidocaine and Prilocaine Cream, 2.5%/2.5% as the third product generating revenues for Acrux. The pipeline continues to fill, with 3 new product development opportunities identified at the company's biannual formal strategic review, as well as 3 products under review at the FDA.

**3QFY24 result – cashflow positive:** Acrux reported positive cashflow of \$0.763m for the quarter, ending the period with cash of \$5.328m. Receipts from customers were \$2.755m. Key cost items included staff (\$1.122m), R&D (\$0.417m), and admin & corporate (\$0.224m), as well as outgoings for active pharmaceutical ingredient (API) purchases (see below).

**Receives \$2.752m in cash from Padagis during quarter for APIs:** Acrux received payments from Padagis during 3Q for APIs, in this case raw materials for the manufacture of Lidocaine and Prilocaine Cream, 2.5%/2.5%. While the amount of \$2.752m is a pass-through from COGS, we view this as a continued good sign of sales for Prilocaine/Lidocaine.

## Investment Thesis

### Topical generic pharmaceuticals more complex and less competitive:

Acrux's proprietary drug delivery technology comprises known skin penetration enhancers and excipients, as well as solvents comprising volatile/non-volatile liquids. Acrux patents cover technology for delivering drugs through the skin using proprietary delivery methods. The transdermal and topical generic market is generally less competitive than the much larger oral generic market.

**Portfolio of approved products reaches critical mass:** Acrux has 16 products in its portfolio, of which 6 have been approved by the FDA and 4 commercialised.

**Consistent record of commercialisation:** Since incorporating in 1998, Acrux has been successful in developing formulations and bringing them to market via licensee partners in Europe and the US. A key aspect of its business model is out-licensing of products to strategic partners, reducing commercialisation risk.

## Valuation/Risks

We value Acrux at \$0.25 per share (unchanged) using a DCF methodology, assuming a 12.3% discount rate and shares on issue of 288.7m. Our valuation is most sensitive to timing of approvals, as well as the ultimate pricing achieved given the number of competitors in specific product markets.

## Equity Research Australia Health Care Equipment & Services

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Acrux is a specialty pharmaceutical company focused on developing and commercialising generic versions of topically applied prescription pharmaceuticals primarily for the US market. Acrux leverages on-site laboratories, a GMP manufacturing suite, and its clinical and commercial experience and has been successful over 25 years in bringing products to market through licensee partners in the US and Europe. The company's 16-product portfolio includes 6 approved products (4 commercialised, 2 pending) and 10 other products at various stages of development. [www.acrux.com.au](http://www.acrux.com.au)

Valuation	<b>A\$0.25</b> (unchanged)
Current price	<b>A\$0.06</b>
Market cap	<b>A\$18m</b>
Cash on hand	<b>A\$5.3m</b> (31 March 2024)

## Upcoming Catalysts / Next News

Period	
2HCY24	- Sales update of Prilocaine/Lidocaine
2HCY24	- Pipeline progress, FDA approvals and ANDA filings

## Share Price (A\$)



Source: FactSet, MST Access

Year end 30 June, AUD unless otherwise noted

**MARKET DATA**

Price	\$	0.06
52 week high / low	\$	0.04-0.07
Valuation	\$	0.25
Market capitalisation	\$m	18.2
Shares on issue (basic)	m	288.7
Options / rights	m	0.0
Other equity	m	0.0
Shares on issue (diluted)	m	288.7

**12-MONTH SHARE PRICE PERFORMANCE (A\$)**



**INVESTMENT FUNDAMENTALS**

		FY22A	FY23A	FY24E	FY25E	FY26E
Reported NPAT	\$m	(9.8)	(0.8)	(3.8)	2.4	10.4
Underlying NPAT	\$m	(9.8)	(0.8)	(3.8)	2.4	10.4
Reported EPS (diluted)	¢	(3.5)	(0.3)	(1.3)	0.8	3.6
Underlying EPS (diluted)	¢	(3.5)	(0.3)	(1.3)	0.8	3.6
Growth	%					
Underlying PER	x	nm	nm	nm	7.5	1.7
Operating cash flow per share	¢	(3.1)	0.2	(1.2)	0.9	3.7
Free cash flow per share	¢	(3.3)	0.2	(1.2)	0.9	3.7
Price to free cash flow per share	x	nm	30.9	nm	6.7	1.7
FCF Yield	%	nm	3.2%	nm	14.9%	58.6%
Dividend	¢	0.0	0.0	0.0	0.0	0.0
Payout	%	0.0%	0.0%	0.0%	0.0%	0.0%
Yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Franking	%	0.0%	0.0%	0.0%	0.0%	0.0%

**PROFIT AND LOSS**

		FY22A	FY23A	FY24E	FY25E	FY26E
Revenue	\$m	1.7	8.4	6.5	12.3	20.2
Other income	\$m	3.4	3.4	2.9	3.2	3.2
Operating expenses	\$m	14.7	12.7	13.3	13.1	13.1
EBITDA	\$m	(10.3)	(0.9)	(4.3)	2.1	10.0
Depreciation & Amortisation	\$m	0.7	0.6	0.4	0.3	0.3
EBIT	\$m	(9.6)	(0.3)	(3.9)	2.4	10.3
Net interest	\$m	0.0	0.1	0.1	0.1	0.1
Pretax Profit	\$m	(9.6)	(0.2)	(3.8)	2.4	10.4
Tax expense	\$m	(0.3)	(0.6)	0.0	0.0	0.0
Reported NPAT	\$m	(9.8)	(0.8)	(3.8)	2.4	10.4
Weighted average diluted shares	m	283.9	286.5	288.7	288.7	288.7

**ENTERPRISE VALUE**

		FY22A	FY23A	FY24E	FY25E	FY26E
Enterprise value	\$m	12.4	12.0	15.5	13.0	2.5
EV/EBITDA	x	nm	nm	nm	6.3	0.3
EV/EBIT	x	nm	nm	nm	5.5	0.2
Price to book (NAV)	x	2.0	2.1	3.7	2.5	1.0
Price to NTA	x	2.5	2.7	6.3	3.4	1.2

**GROWTH PROFILE**

		FY22A	FY23A	FY24E	FY25E	FY26E
Other income	%	(11.1)	0.3	(15.3)	12.4	0.0
EBITDA	%	(23.0)	(96.5)	1,076.0	(159.9)	337.0
EBIT	%	(21.9)	(90.9)	367.9	(147.4)	386.3
Reported NPAT	%	(22.1)	(92.2)	397.1	(163.5)	331.4

**KEY RATIOS**

		FY22A	FY23A	FY24E	FY25E	FY26E
ROE	%	nm	nm	nm	33.0	58.7
ROA	%	nm	nm	nm	20.0	46.2
Net tangible assets per share	\$	0.0	0.0	0.0	0.0	0.1
Book value per share	\$	0.0	0.0	0.0	0.0	0.0
Net debt/(cash)	\$m	(5.8)	(6.2)	(2.7)	(5.2)	(15.7)

**BALANCE SHEET**

		FY22A	FY23A	FY24E	FY25E	FY26E
Cash	\$m	5.8	6.2	2.7	5.2	15.7
Receivables	\$m	0.4	0.4	0.4	0.4	0.4
Current assets	\$m	10.0	9.9	6.3	8.8	19.3
Leased assets	\$m	1.9	2.0	2.0	2.0	2.0
Non current assets	\$m	4.3	3.4	3.2	3.2	3.2
Total assets	\$m	14.3	13.3	9.6	12.0	22.5
Trade and other payables	\$m	0.9	0.8	0.8	0.8	0.8
Other	\$m	2.4	1.6	1.6	1.6	1.6
Current liabilities	\$m	3.3	2.4	2.4	2.4	2.4
Total liabilities	\$m	5.2	4.6	4.7	4.7	4.8
Net assets	\$m	9.1	8.7	4.9	7.3	17.7
Share capital	\$m	114.6	114.9	114.9	114.9	114.9
Retained earnings	\$m	(113.7)	(114.5)	(118.3)	(115.9)	(105.5)
Other	\$m	8.3	8.3	8.3	8.3	8.3
Total equity	\$m	9.1	8.7	4.9	7.3	17.7

**DUPONT ANALYSIS**

		FY22A	FY23A	FY24E	FY25E	FY26E
Return on Assets	%	nm	nm	nm	20.0	46.2
Leverage	x	1.6	1.5	2.0	1.6	1.3
Return on Equity	%	nm	nm	nm	33.0	58.7

**CASH FLOW**

		FY22A	FY23A	FY24E	FY25E	FY26E
Net loss for period	\$m	(9.8)	(0.8)	(3.8)	2.4	10.4
Depreciation & Amortisation	\$m	0.7	0.6	0.4	0.3	0.3
Changes in working capital	\$m	(0.4)	(0.3)	0.0	0.0	0.0
Other	\$m	0.8	1.2	0.0	0.0	(0.0)
Operating cash flow	\$m	(8.8)	0.7	(3.4)	2.7	10.7
Payments for PPE	\$m	0.0	0.0	0.0	0.0	0.0
Investing cash flow	\$m	(0.5)	(0.1)	0.0	0.0	0.0
Capital raising costs	\$m	0.0	0.0	0.0	0.0	0.0
Lease liability principal repayments	\$m	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Financing cash flow	\$m	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Cash year end	\$m	5.8	6.2	2.7	5.2	15.7
Free cash flow	\$m	(9.3)	0.6	(3.4)	2.7	10.7

**KEY PERFORMANCE INDICATORS**

	FY22A	FY23A	FY24E	FY25E	FY26E
Commercialised	3	4			
Approved	5	6			
Under review by FDA	3	3			
Under development	8	7			

**HALF YEARLY DATA**

		2H21	1H22	2H22	1H23	2H23
Revenue	\$m	0.5	0.7	1.0	1.4	7.0
Other income	\$m	3.4	1.4	2.0	1.8	1.5
Operating expenses	\$m	9.2	7.1	7.6	6.0	6.1
EBITDA	\$m	(5.6)	(5.3)	(4.9)	(3.1)	2.2
EBIT	\$m	(5.2)	(5.0)	(4.6)	(2.8)	2.4
PBT	\$m	(4.9)	(5.3)	(4.9)	(3.1)	2.9
Reported NPAT	\$m	(4.8)	(5.5)	(5.0)	(3.3)	2.5

Source: Company reports, MST Access estimates

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Chris Kallos, CFA received assistance from the subject company or companies in preparing this research report. The company provided them with communication with senior management and information on the company and industry. As part of due diligence, they have independently and critically reviewed the assistance and information provided by the company to form the opinions expressed in this report. They have taken care to maintain honest and fair objectivity in writing this report and making the recommendation. Where MST Financial Services or its affiliates has been commissioned to prepare content and receives fees for its preparation, please note that NO part of the fee, compensation or employee remuneration paid has, or will, directly or indirectly impact the content provided in this report.

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Acrux (ACR.AX) | Price A\$0.06 | Valuation A\$0.25;

*Price and valuation as at 07 May 2024 (\* not covered)*

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