Biotech Daily

Friday March 17, 2017

Daily news on ASX-listed biotechnology companies

Dr Boreham's Crucible: Mayne Pharma Group

By TIM BOREHAM

ASX code: MYX

Market cap: $1.92 billion; **Share price:** $1.275; **Shares on issue:** 1.503 billion

Chief executive officer: Scott Richards

Board: Roger Corbett (chairman), Bruce Mathieson, Ron Best, Ian Scholes, William Hodges, Prof Bruce Robinson, Nancy Dolan.

Financials (2016-'17 first half): revenue $295 million (up 132%), net profit $72.7 million (up 278%), EBITDA $129 million (up 217%). Cash on hand $80 million.
Adjusted net profit $56.5 million (up 196%), adjusted EBITDA $108.5 million (up 158%)

Shareholders: CBA 6.5%, Bruce Mathieson 6.1%, Yarra Capital Management sub-5%, Westpac 5%, AFIC 1.3%, R&JS Smith Holdings 1%, Scott Richards 1%, Roger Corbett 0.69%

Mayne Pharma is the little Aussie engine that could, having emerged from the messy remains of the Adelaide-based stalwart FH Faulding to become a pre-eminent global provider of generic drug lines.

But can management beat the syndrome of other acquisitive Puffing Billies running out of steam on the global stage?

Last month's half-year results show there's plenty of coal in the bunker, with the company taking last year's $US652 million ($A880 million) acquisition of Israeli giant Teva's generics portfolio in its stride.

In reported or adjusted terms, revenue EBITDA and net profits were triple-digit gainers. This “exceptionally strong” result (management’s words) takes into account five months of earnings from the Teva purchase, which is “tracking ahead of revenue and margin assumptions”.

But Mayne’s existing US-oriented portfolio also held up, the only blemish being an expected weak showing for its Doryx acne treatment in the face of intensified competition.

Mayne has its own branded products (such as Doryx) and a contract development division. But the powerhouse is the generic product services arm, which accounts for 75 percent of group revenue.

Of the division’s $222 million turnover, the Teva lines contributed $100 million. The top nine products have a number one or two market share and half the drugs have two or fewer competitors.

The heart arrhythmia treatment dofetilide is Mayne’s most important line, accounting for 17 percent of generics revenue. The other main “product families” covered by Mayne generics are contraceptives, pain, attention deficit disorder and hypertension.

With Microgestin (the generic version of Loestrin), the Teva purchase made Mayne the biggest provider of oral contraceptives to the US market.

Not that there’s any sign of a pregnant pause: during the half-year, the company spent $15.6 million on research and development, with a pipeline of 40 products in the US with sales of $US6.6 billion. Locally, Mayne plans to release nine drugs worth $100 million in sales.

Not to be satiated, Mayne this month acquired the rights to a transdermal patch (the equivalent to Duragesic) that delivers the painkiller fentanyl to those in serious pain requiring daily doses.

We’ll forgive Mayne that the widely-used opiate was the ascribed cause of death for Prince, who assumed the mantle of the world’s greatest living musician after the death of Miles Davis in 1991.

Prospects:

For reasons known only to the market gods, investors cold-shoulders the half-year results and sent Mayne shares down 1.6% on the day.

A possible reason is the negative operating cash flow of $67 million, which management promises will turn around in the current (second) half as investment abates.

The company’s debt of $313 million appears manageable. Bear in mind the Teva purchase was funded by a monster $888 million rights raising and placement.

The odiferous elephant in the room is an on-going US Department of Justice probe into alleged price fixing of two generic drugs (an antibiotic and a diabetes treatment).

Mayne shares plummeted 15 percent in mid-December after Mayne (and Teva) were named among six companies under investigation.

The company has denied wrong doing and says the investigation won't impact future earnings. But management adds: "no assurance can be given as to the timing or outcome of the investigation or legal proceedings".

As usual, Donald Trump adds another element of uncertainty. "I am working on a new system where there will be competition in the drug industry," he Tweeted on March 7.

Given Mayne derives 94 percent of its revenues from the US, we wonder why the company doesn't domicile there and avoid the currency vagaries of reporting in Aussie dollars.

Dr Boreham's diagnosis:

Your humble practitioner* is wary of companies who downplay serious allegations of wrong doing. Ever respectful of British legal tradition, we'll assume Mayne is vindicated or, if not quite so, the effects are immaterial.

And let's face it, the Yanks are always litigating about one thing or the other.

Mayne shares are only just above their post-Teva low of $1.22 and are trading at close to the $1.28 per share paid by retail holders in last year's one-for-1.725 rights offer.

The stock peaked at $2.05 in September.

Along the way, Mayne (which listed as Halcygen Pharma) has been a nice gamble for pokies king Bruce Mathieson and his mate, former grocer Roger Corbett.

Mayne stock trades on a current-year multiple of anywhere between 12 and 16 times, depending whose guesstimate you believe. At the lower end that's cheap for the health sector.

The nature of generics is such that the owners need to make their money in a short time frame and need a busy pipeline to generate new revenues.

We prescribe the stock in low doses, and if pain persists, the fentanyl patches will always come in handy.

Disclosure: *of wordsmithing. Dr Boreham is not a qualified medical practitioner and does not possess a doctorate of any sort - generically speaking or otherwise