

Polynovo

Record Dec sales but COVID-19 challenges remain

Reiterate Rating: BUY | PO: 2.30 AUD | Price: 1.84 AUD

Trading update: record Dec-21 sales

Polynovo (PNV) announced unaudited 1H22 total revenue of \$18.04m (+43% pcp) missing BofASe by 11% (\$20.3m). **Key points:** (i) Record US (ex BARDA) Dec sales (\$3.4m); +76% pcp albeit off C19-impact comps; (ii) Positive US sales momentum with 2Q22 sales up 31% vs 1Q22; (iii) New account momentum with 35 new accounts added in 1H22 vs 22 each in 1H/2H21; (iv) Plans to add 10 sales reps in near term; (iv) Miss was due to disappointing ROW rev (\$2.08m; -35% pcp) and lower than expected BARDA revenue due to slower enrolment than expected.

2H22e rev reduced by 10% on near term concerns

Whilst PNV is seeking to add to its US sales force and refocus its ROW efforts, we remain concerned that (i) US C19 hospitalisations and ICU admissions are approaching Dec20/Jan21 peaks and will likely impact PNV's hospital and surgeon access; (ii) Nursing shortages in US hospitals are giving rise to delayed or simplified procedures; (iii) Lower economic activity is also likely to delay BARDA trial enrolments. Accordingly, we lower our 2H22 rev estimates to \$22.0m (prev \$24.5m) and FY22-23 estimates.

Ahead: New accounts and products

We expect PNV to continue to win new accounts both in the US and ROW. In addition, the launch of smaller format BTM will appeal to the wound care market. Pipeline hernia product provides longer term opportunity.

Lower PO to \$2.30. Reiterate Buy

We reiterate our Buy rating on the long-term opportunity. However, we reduce our PO by 4% to \$2.30 (previously \$2.40) following estimate changes and roll forward to FY25 sales. We use an EV/Sales multiple of 17x (unchanged) applied to FY25 (rolled forward from FY24) and discounted using a 10.6% WACC.

Estimates (Jun) (AS)	2020A	2021A	2022E	2023E	2024E
Net Profit b/f Abnormals	-4.2	-4.6	-5.5	4.8	29.4
EPS	(0.007)	(0.006)	(0.008)	0.007	0.044
EPS Change (YoY)	-30.8%	-9.8%	-19.6%	NM	516.5%
Dividend / Share	0	0	0	0	0
Free Cash Flow / Share	(0.014)	(0.006)	(0.009)	0.007	0.024
Valuation (Jun)					
P/E	NM	NM	NM	254x	41x
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	-366x	-357x	-274x	221x	38x
Free Cash Flow Yield*	-0.766%	-0.315%	-0.501%	0.373%	1.32%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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12 January 2022

Equity

Key Changes

(AS)	Previous	Current
Price Obj.	2.40	2.30
2022E EPS	0	-0.01
2023E EPS	0.02	0.01
2024E EPS	0.05	0.04
2022E EBITDA (m)	0	-4.5
2023E EBITDA (m)	16.1	5.5
2024E EBITDA (m)	45.3	31.8

Lyanne Harrison >>
Research Analyst
Merrill Lynch (Australia)
+61 2 9226 5028
lyanne.harrison@bofa.com

Joshua Ting >>
Research Analyst
Merrill Lynch (Australia)
+61 2 9226 5230
joshua.ting@bofa.com

Stock Data

Price	1.84 AUD
Price Objective	2.30 AUD
Date Established	12-Jan-2022
Investment Opinion	C-1-9
52-Week Range	1.35 AUD - 3.24 AUD
Mrkt Val (mn) / Shares Out (mn)	1,214 AUD / 661.4
Average Daily Value (mn)	4.08 AUD
BofA Ticker / Exchange	CALZF / ASX
Bloomberg / Reuters	PNV AU / PNV.AX
ROE (2022E)	-28.0%
Net Dbt to Eqty (Jun-2021A)	-1.0%

Glossary

BTM – Biodegradable Temporising Matrix
ICU – Intensive care unit
C19- COVID-19
BARDA - The Biomedical Advanced Research and Development Authority
ROW – Rest of world

iQprofileSM Polynovo

Key Income Statement Data (Jun)	2020A	2021A	2022E	2023E	2024E
(A\$ Millions)					
Sales	22.2	29.2	40.0	64.6	95.3
Associates & Other Revenue	0	0	0	0	0
Operating Expenses	-25.5	-32.6	-44.5	-59.1	-63.5
EBITDA	-3.3	-3.4	-4.5	5.5	31.8
Depreciation & Amortization	-0.8	-0.9	-1.0	-0.7	-0.7
EBIT	-4.1	-4.3	-5.5	4.8	31.1
Net Interest & Other income	0	-0.2	0	0	0
Pretax Income	-4.1	-4.6	-5.5	4.8	31.1
Tax (expense) / Benefit	-0.1	-0.1	0	0	-1.7
Outside Equity interest in Npat	NA	NA	NA	NA	NA
Preference dividends	NA	NA	NA	NA	NA
Net Profit b/f Abnormals	-4.2	-4.6	-5.5	4.8	29.4
Non-Recurring Items	0	0	0	0	0
Net Income (Reported)	-4.3	-4.3	-5.5	4.8	29.4

Key Cash Flow Statement Data	2020A	2021A	2022E	2023E	2024E
EBITDA	-3.3	-3.4	-4.5	5.5	31.8
Change in Working Capital	0	0	-0.6	0	-13.1
Other C'flow Items before int & tax	0	0	0	0	0
Net Interest Paid	0	0	0	0	0
Tax Paid	0	0	0	0	-1.7
Other C'flow from Operations	2.9	3.2	0	0	0
Cash Flow from Operations	-0.4	-0.3	-5.1	5.5	17.0
Capital Expenditure (PP&E)	-8.9	-3.6	-1.0	-1.0	-1.0
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other C'flow from Investing	0	0	0	0	0
Cash Flow from Investing	-8.8	-3.6	-1.0	-1.0	-1.0
Shares Issue / (Repurchase)	0	0	0	0	0
Dividend paid	0	0	0	0	0
Other C'flow from Financing	7.0	-0.1	-1.5	-3.4	-0.4
Cash Flow from Financing	7.0	-0.1	-1.5	-3.4	-0.4
Free Cash Flow	-9.3	-3.8	-6.1	4.5	16.0
Net Debt	-6.9	-0.2	5.9	1.4	-14.5

Key Balance Sheet Data	2020A	2021A	2022E	2023E	2024E
Cash Equivalents	11.6	7.7	0.1	1.2	16.8
Receivables & Inventories	5.1	7.6	7.7	10.6	25.9
Property, Plant & Equipment	13.9	17.6	18.1	18.8	19.5
Intangibles	1.9	1.7	1.5	1.3	1.1
Other assets	5.3	3.8	3.5	3.3	3.1
Total Assets	37.9	38.3	30.8	35.1	66.4
Payables	3.2	5.0	4.4	7.3	9.5
Provisions	1	1	1	1	1
Short term debt & Long term debt	4.7	7.5	6.0	2.6	2.2
Other Liabilities	5.4	2.6	2.6	2.6	2.6
Total Liabilities	14.0	16.0	14.0	13.5	15.3
Total Equity	23.8	22.4	16.9	21.6	51.0

iQ ^{method SM} - Bus Performance*	2020A	2021A	2022E	2023E	2024E
Return on Capital Employed	-13.5%	-13.3%	-18.5%	18.2%	71.8%
Return on Equity	-17.4%	-18.5%	-28.0%	24.8%	80.9%
Operating Margin	-18.7%	-14.8%	-13.6%	7.4%	32.7%
EBITDA Margin	-14.9%	-11.7%	-11.1%	8.5%	33.3%

iQ ^{method SM} - Quality of Earnings*	2020A	2021A	2022E	2023E	2024E
Cash Realization Ratio	0.1x	0.1x	0.9x	1.2x	0.6x
Dividend Payout Ratio	0%	0%	0%	0%	0%
Tax Rate (Reported)	-1.6%	-1.2%	0%	0%	5.4%
Net Debt-to-Equity Ratio	-29.1%	-1.0%	35.0%	6.5%	-28.5%
Interest Cover	-230.3x	-19.4x	-151.6x	133.5x	864.4x

Key Metrics	2020A	2021A	2022E	2023E	2024E
Franking	0%	0%	0%	0%	0%

* For full definitions of iQ^{method SM} measures, see page 5.

Company Sector

Healthcare Technology & Distribution

Company Description

Polynovo Limited (PNV) is a medical device company that designs, develops and manufactures innovative products for the treatment of dermal loss. Its flagship product NovoSorb BTM is the world's first fully synthetic regenerative dermal product. The company is based in Australia with an expanding sales force servicing key markets (US and recently approved Europe).

Investment Rationale

With proven commercialisation, approvals in new markets, a blue-chip sales force and increasing surgeon advocates, we forecast revenues for Polynovo's flagship product (NovoSorb BTM) to continue to exhibit strong growth. We believe the large underpenetrated market provides significant runway for growth.

Stock Data

Price to Book Value

72.0x



Price objective basis & risk

Polynovo (CALZF)

Our EV/Sales-based price objective for PNV is \$2.30 per share. We use an FY25E EV/sales multiple of 17x discounted to present value. 17x is in line with multiples of global high-growth small cap medical technology companies.

Risks to our price objective are: (1) Regulatory approvals delayed or not obtained, (2) Changes to reimbursement regimes in key markets, (3) Competitive pressures as incumbents attempt to maintain market share, (4) Economic risks including downturns and currency fluctuations, (5) New product rollout risks, (6) Partnering risks with development and distribution partners, (7) Slower than anticipated revenue generation and thus require borrowings or an equity raise, (8) Product recall and/or safety issues, (9) Ongoing COVID-19 caseload impacting ICU bed capacity.

Analyst Certification

I, Lyanne Harrison, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.



APR - Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY	Aier Eye Hospital	XAEOF	300015 CH	David Li
	Angelalign Technology Inc	XPEFF	6699 HK	David Li
	Ansell Limited	ANSLF	ANN AU	Joshua Ting
	Asahi Intecc	AHICF	7747 JP	Ritsuo Watanabe
	Aurobindo	XLZFF	ARBP IN	Neha Manpuria
	Australian Clinical Labs	XAUKF	ACL AU	Lyanne Harrison
	AVITA	AVHHL	AVH AU	Lyanne Harrison
	AVITA	RCEL	RCEL US	Lyanne Harrison
	Bangkok Dusit Medical Services	BDUFF	BDMS TB	Charti Phrawphraikul
	Burning Rock	BNR	BNR US	David Li
	Cansino Bio	CASBF	6185 HK	David Li
	CSL Limited	CMXHF	CSL AU	Lyanne Harrison
	Daiichi Sankyo	DSKYF	4568 JP	Ritsuo Watanabe
	Everest Medicine	XMLKF	1952 HK	David Li
	Fisher & Paykel Healthcare	FSPKF	FPH NZ	Lyanne Harrison
	Frontage	FGHQF	1521 HK	David Li
	HBM Holdings	XHHHF	2142 HK	David Li
	Healius Limited	PHCRF	HLS AU	Lyanne Harrison
	IHH Healthcare Berhad	IHHHF	IHH MK	Swati Chopra
	IHH Healthcare Bhd	XFAHF	IHH SP	Swati Chopra
	I-MAB	IMAB	IMAB US	David Li
	Innovent	IVBXF	1801 HK	David Li
	Integral Diagnostics	ITGDF	IDX AU	Lyanne Harrison
	Jinxin Fertility	JXFGF	1951 HK	Ethan Cui
	Jinyu Bio-Tech	XMTDF	600201 CH	David Li
	JMDC	JMDCF	4483 JP	Ritsuo Watanabe
	Joynn Lab	XQTSF	6127 HK	David Li
	Kyowa Kirin	KYKOF	4151 JP	Ritsuo Watanabe
	Medipal Holdings	MEPDF	7459 JP	Ritsuo Watanabe
	Medley	XEQNF	4480 JP	Ritsuo Watanabe
	Olympus Corp.	OCPNF	7733 JP	Ritsuo Watanabe
	Olympus Corp.	OCPNY	OCPNY US	Ritsuo Watanabe
	Ovctek	XOCKF	300595 CH	David Li
	Pharmaron	PHBBF	3759 HK	David Li
	Pharmaron	XLYGF	300759 CH	David Li
	PHC Holdings	XPHCF	6523 JP	Ritsuo Watanabe
	Polynovo	CALZF	PNV AU	Lyanne Harrison
	Praram 9 Hospital	XPNHF	PR9 TB	Charti Phrawphraikul
	Ramsay Health Care Limited	RMSYF	RHC AU	Lyanne Harrison
	Shionogi	SGIOF	4507 JP	Ritsuo Watanabe
	Sino Biopharm	SBMFF	1177 HK	David Li
	SMS	SMSZF	2175 JP	Paul Dewberry
	Sonic Healthcare Limited	SKHCF	SHL AU	Lyanne Harrison
	Sun Pharma	XPUCF	SUNP IN	Neha Manpuria
	TigerMed	XHTHF	300347 CH	Paul Dewberry
	TigerMed	XZHTF	3347 HK	Paul Dewberry
	Wuxi Apptec	WUXIF	2359 HK	David Li
	Wuxi Apptec	XLUHF	603259 CH	David Li
	WuXi Biologics	WXIBF	2269 HK	David Li
	Zai Lab	ZLAB	ZLAB US	David Li
	Zai Lab	XZAIF	9688 HK	David Li
	Zhifei	XCHOF	300122 CH	David Li
NEUTRAL	Bangkok Chain Hospital	BKKFF	BCH TB	Charti Phrawphraikul
	Beigene	XBETF	6160 HK	David Li
	Beigene	BGNE	BGNE US	David Li
	Cochlear Limited	CHEOF	COH AU	Lyanne Harrison
	Dr. Reddy's	DRYBF	DRRD IN	Neha Manpuria
	Eisai	ESALF	4523 JP	Ritsuo Watanabe
	Eisai	ESALY	ESALY US	Ritsuo Watanabe
	Glenmark Life Sciences	XWDPF	GLS IN	Swati Chopra
	Kangji Medical	KMHLF	9997 HK	David Li
	Lupin	XEFSF	LPC IN	Neha Manpuria



APR - Healthcare Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Takeda Pharm.	TKPHF	4502 JP	Ritsuo Watanabe
	Takeda Pharm.	TAK	TAK US	Ritsuo Watanabe
	Terumo	TRUMF	4543 JP	Ritsuo Watanabe

UNDERPERFORM

	Ain Holdings	AINPF	9627 JP	Ritsuo Watanabe
	Astellas Pharma	ALPMF	4503 JP	Ritsuo Watanabe
	Asymchem Laboratories	XALPF	002821 CH	David Li
	Bumrungrad Hospital	BUHHF	BH TB	Charti Phrawphraikul
	Cadila Healthcare	XMQLF	CDH IN	Neha Manpuria
	Chugai Pharm.	CHGCF	4519 JP	Ritsuo Watanabe
	Cipla	XCLAF	CIPLA IN	Neha Manpuria
	Hansoh	HNSPF	3692 HK	David Li
	Hengrui Medicine	XMOKF	600276 CH	David Li
	Joynn Lab	JOLCF	603127 CH	David Li
	M3	MTHRF	2413 JP	Ritsuo Watanabe
	Nanosonics Limited	NNCSF	NAN AU	Lyanne Harrison
	Otsuka HD	OTSKF	4578 JP	Ritsuo Watanabe
	ResMed Inc	RS MDF	RMD AU	Lyanne Harrison
	ResMed Inc.	RMD	RMD US	Lyanne Harrison
	Sawai Group Holdings	SWGHF	4887 JP	Ritsuo Watanabe
	Sinopharm	SHTDF	1099 HK	David Li
	Sysmex	SSMXF	6869 JP	Ritsuo Watanabe

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Return On Equity

Net Income

Amortization

Operating Margin

Operating Profit

Shareholders' Equity

Earnings Growth

Expected 5 Year CAGR From Latest Actual

Sales

Free Cash Flow

Cash Flow From Operations – Total Capex

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Cash Flow From Operations

Denominator

Net Income

Asset Replacement Ratio

Capex

Depreciation

Tax Rate

Tax Charge

Pre-Tax Income

Net Debt-To-Equity Ratio

Net Debt = Total Debt – Cash & Equivalents

Total Equity

Interest Cover

EBIT

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Current Share Price

Denominator

Diluted Earnings Per Share (Basis As Specified)

Price / Book Value

Current Share Price

Shareholders' Equity / Current Basic Shares

Dividend Yield

Annualised Declared Cash Dividend

Current Share Price

Free Cash Flow Yield

Cash Flow From Operations – Total Capex

Market Cap = Current Share Price × Current Basic Shares

Enterprise Value / Sales

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Sales

Other LT Liabilities

EV / EBITDA

Enterprise Value

Basic EBIT + Depreciation + Amortization

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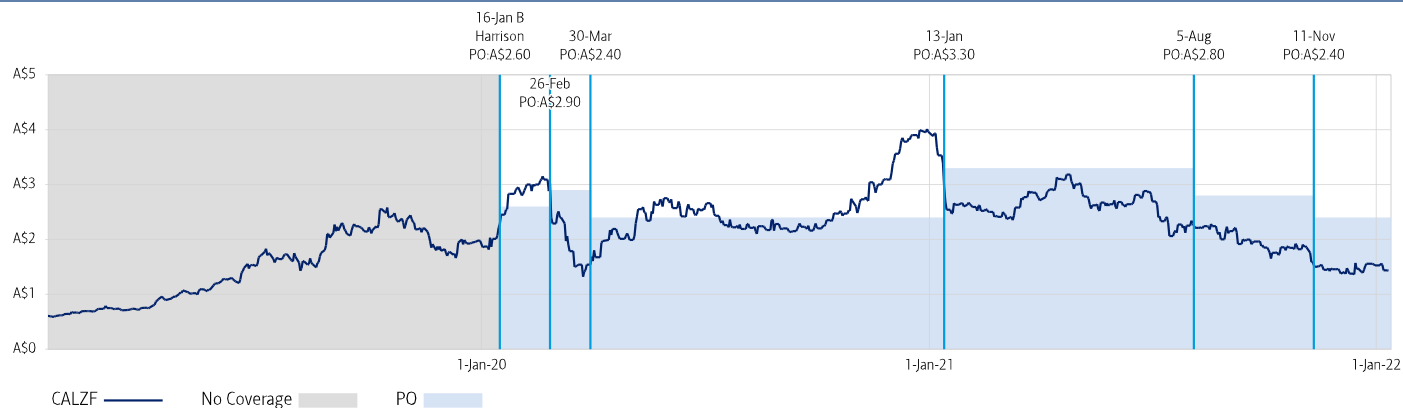
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Polynovo (CALZF) Price Chart



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Equity Investment Rating Distribution: Health Care Group (as of 31 Dec 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	241	64.27%	Buy	141	58.51%
Hold	69	18.40%	Hold	37	53.62%
Sell	65	17.33%	Sell	29	44.62%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2021)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1982	58.85%	Buy	1249	63.02%
Hold	696	20.67%	Hold	429	61.64%
Sell	690	20.49%	Sell	346	50.14%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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