

Novogen Limited (NVGN)
Rating: Buy

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New Strategy in Place; Cantrixil Heading Into the Clinic; Reiterate Buy

Stock Data		09/26/2016		
Price		\$1.96		
Exchange		NASDAQ		
Price Target		\$5.00		
52-Week High		\$3.09		
52-Week Low		\$1.72		
Enterprise Value (M)		\$10		
Market Cap (M)		\$34		
Public Market Float (M)		15.4		
Shares Outstanding (M)		17.3		
3 Month Avg Volume		47,574		
Short Interest (M)		0.01		
Balance Sheet Metrics				
Cash (M)		A\$33.45		
Total Debt (M)		A\$0.00		
Total Cash/Share		A\$1.94		
Book Value/Share		A\$1.96		
EPS (A\$) Diluted				
Full Year - Jun		2015A	2016A	2017E
1st Half		(0.02)	(0.01)	(0.02)
2nd Half		(0.01)	(0.02)	(0.01)
FY		(0.03)	(0.03)	(0.03)
Revenue (A\$M)				
Full Year - Jun		2015A	2016A	2017E
1st Half		2.0	4.3	2.5
2nd Half		0.9	(0.2)	2.5
FY		2.8	4.1	4.9



First steps in a new strategic direction. Dr. James Garner, following his appointment as CEO in December 2015, has highlighted his strategic vision for Novogen to evolve into an oncology company with a strong focus on discovery, development and partnering. Specifically, Dr. Garner announced that the company would develop products through preclinical and early clinical proof-of-concept before out-licensing them to partners. We support management's decision as we believe this strategy allows Novogen to create greater value by leveraging the company's strong expertise in early development. The company has taken several positive steps towards realizing this vision in 3Q16. Notably, the company has successfully applied for an IND for its lead product candidate, Cantrixil, and received FDA approval on September 12. According to management, a Phase 1 study using Cantrixil for the treatment of ovarian cancer is planned to start in 4Q16. Furthermore, on August 29, Novogen appointed industry veterans Dr. Gordon Hirsch, formerly of Sanofi (SNF; not rated) and Dr. Peng Leong, formerly of Merck Serono (DE:MRK; not rated) as Chief Medical Officer and Chief Business Officer, respectively. According to the company, Dr. Hirsch will head the company's clinical development while Dr. Leong will be responsible for discussions with potential partners. While management expects the company's SBP and ATM technology platforms to generate a flow of product candidates over time, they also remain open-minded on in-licensing new molecules for development. Finally, on September 5, the company also appointed a scientific advisory board comprising of four drug development experts to provide advise and guidance on the development of its products. With a product ready for the clinic and new appointments leading the way, we believe the strategic shift is well underway at Novogen.

Phase 1 study of Cantrixil. According to the study protocol, the Phase 1 study plans to enroll 60 patients with recurrent or persistent platinum-resistant ovarian cancer who have failed at least two prior lines of therapy. Patients are scheduled to receive Cantrixil either once or twice per week for up to 24 weeks. Primary outcome measures of the study include safety, tolerability, disease response, and time-to-progression. Patients will also be monitored for CA-125 levels, a key biomarker in ovarian cancer. We note that currently approved salvage therapies for advanced ovarian cancer are chemotoxic agents such as paclitaxel, docetaxel, doxorubicin and topotecan, all of which have limited response rates (10-35%) and are associated with severe side effects. We expect top line results from the Phase 1 study to be available in 2018 and we believe that, if Cantrixil can elicit a strong clinical response or result in significant reduction in patient CA-125 levels, it could be a strong catalyst for the stock.

Valuation. We maintain our Buy rating of Novogen and our 12-month price target of \$5.00 per ADS. We derive our price target based on the average of: 1) price-sales multiple analysis applying an 8x multiple to our 2026 sales estimate discounted at 20%; and 2) price-earnings multiple analysis applying a 15x multiple to our 2026 estimated earnings discounted at 20%.

Risks: 1) clinical; 2) commercial; 3) financial; 4) currency and 5) intellectual property.



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Novogen Historical Income Statement and Financial Projections

FY JUN 30								
AUS ('000) Except Per Share Data	FY 2015A	H1 2016A	H2 2016A	FY 2016A	H1 2017E	H2 2017E	FY 2017E	FY 2018E
Revenues	89	168	238	406	-	-	-	-
Other income	2,753	4,090	(425)	3,665	2,473	2,473	4,947	6,309
Gross Income	2,842	4,258	(187)	4,071	2,473	2,473	4,947	6,309
Research & development	(5,935)	(5,011)	(4,883)	(9,894)	(6,514)	(6,104)	(12,618)	(15,773)
General and administrative expenses	(3,844)	(3,081)	(2,680)	(5,760)	(3,142)	(2,733)	(5,876)	(5,993)
Operating Income (Loss)	(6,937)	(3,834)	(7,750)	(11,583)	(7,183)	(6,363)	(13,547)	(15,457)
Total other income (expense)	(69)	(0)	0	(0)	-	-	-	-
Gain (Loss) before income tax provision	(7,306)	(3,834)	(8,321)	(12,155)	(7,183)	(6,363)	(13,547)	(15,457)
Income tax	-	-	-	-	-	-	-	-
Net Income (loss)	(7,714)	(3,834)	(8,321)	(12,155)	(7,183)	(6,363)	(13,547)	(15,457)
Basic EPS	(0.03)	(0.01)	(0.02)	(0.03)	(0.02)	(0.01)	(0.03)	(0.04)
Diluted EPS	(0.03)	(0.01)	(0.02)	(0.03)	(0.02)	(0.01)	(0.03)	(0.04)
Basic Shares Outstanding	238,418	429,734	431,734	430,734	433,734	435,734	434,734	438,734
Diluted Shares Outstanding	238,418	429,734	431,734	430,734	433,734	435,734	434,734	438,734

Source: Company reports and H.C. Wainwright estimates.

Novogen Historical Income Statement and Financial Projections

FY JUN 30

AUS ('000) Except Per Share Data	FY 2013A	FY 2014A	FY 2015A	FY 2016A	FY 2017E	FY 2018E	FY 2019E	FY 2020E	FY 2021E	FY 2022E	FY 2023E	FY 2024E	FY 2025E	FY 2026E
Revenues	1,112	87	89	406	-	-	-	15,000	-	-	79,422	121,644	172,530	224,123
Other income	618	342	2,753	3,665	4,947	6,309	-	-	-	-	-	-	-	-
Gross Income	1,730	429	2,842	4,071	4,947	6,309	-	15,000	-	-	79,422	121,644	172,530	224,123
Research & development	(256)	(2,476)	(5,935)	(9,894)	(12,618)	(15,773)	(23,659)	(26,025)	(27,326)	(28,692)	(30,127)	(31,633)	(33,215)	(34,876)
General and administrative expenses	(2,850)	(4,267)	(3,844)	(5,760)	(5,876)	(5,993)	(6,293)	(6,607)	(6,938)	(7,285)	(7,649)	(8,031)	(8,433)	(8,855)
Operating Income (Loss)	(1,377)	(6,314)	(6,937)	(11,583)	(13,547)	(15,457)	(29,952)	(17,632)	(34,264)	(35,977)	41,646	81,979	130,882	180,393
Total other income (expense)	(132)	(715)	(69)	(0)	-	-	-	-	-	-	-	-	-	-
Gain (Loss) before income tax provision	(785)	(7,569)	(7,306)	(12,155)	(13,547)	(15,457)	(29,952)	(17,632)	(34,264)	(35,977)	41,646	81,979	130,882	180,393
Income tax	-	-	-	-	-	-	-	-	-	-	-	-	10,004	54,118
Net Income (loss)	3,183	(7,552)	(7,714)	(12,155)	(13,547)	(15,457)	(29,952)	(17,632)	(34,264)	(35,977)	41,646	81,979	120,878	126,275
Basic EPS	0.03	(0.05)	(0.03)	(0.03)	(0.03)	(0.04)	(0.06)	(0.03)	(0.05)	(0.04)	0.05	0.10	0.14	0.15
Diluted EPS	0.03	(0.05)	(0.03)	(0.03)	(0.03)	(0.04)	(0.06)	(0.03)	(0.05)	(0.04)	0.04	0.08	0.11	0.12
Basic Shares Outstanding	114,691	156,725	238,418	430,734	434,734	438,734	542,734	646,734	750,734	838,067	842,067	846,067	850,067	854,067
Diluted Shares Outstanding	114,691	156,725	238,418	430,734	434,734	438,734	542,734	646,734	750,734	838,067	1,065,191	1,069,191	1,073,191	1,077,191

Source: Company reports and H.C. Wainwright estimates.

Novogen Historical Balance Sheet

AUS ('000) Except Per Share Data	FY 2014A	FY 2015A	FY 2016A
Assets			
Cash & cash equivalents	2,502	44,372	33,453
Trade receivables	66	151	203
Other current assets	70	127	433
Total Current Assets	2,638	44,649	34,090
PPE	14	85	592
Investments available for sale	47	16	13
Intangible assets, net	1,960	1,390	822
Total Assets	4,659	46,140	35,517
Liabilities & Shareholders' Equity			
Trade payables	259	1,619	1,300
Derivative financial instruments	173	-	-
Provisions	108	159	132
Total Current Liabilities	540	1,777	1,432
Borrowings	2,707	-	-
Total Liabilities	3,247	1,777	1,586
Contributed equity	142,586	190,404	191,301
Other contributed equity	-	1,716	1,716
Reserves	230	990	1,420
Accumulated losses	(141,306)	(148,444)	(160,507)
Non-controlling interest	(99)	(304)	-
Total Shareholders' Equity	1,412	44,362	33,931
Total Liabilities & Shareholders' Equity	4,659	46,139	35,517

Source: Company reports.

Important Disclaimers

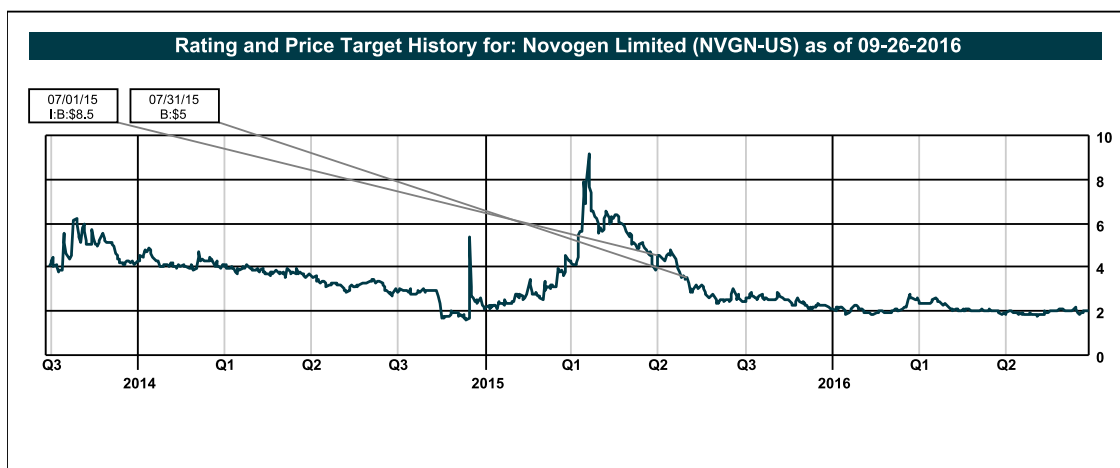
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RETURN ASSESSMENT

Market Outperform (Buy): The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector.

Market Perform (Neutral): The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector.

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Distribution of Ratings Table as of September 26, 2016				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	195	96.06%	55	28.21%
Neutral	7	3.45%	2	28.57%
Sell	0	0.00%	0	0.00%
Under Review	1	0.49%	0	0.00%
Total	203	100%	57	28.08%

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