



## IDT Australia (IDT)

1 September 2023

### Moving to Speculative Buy as turnaround progresses

#### Our View

IDT's FY23 results confirmed the pre-announced revenue of \$7.0m. Operating expenses of \$15.8m were higher than our forecast (TCe \$14.3m), but this was offset by a \$1.3m income tax benefit. NPAT loss increased to \$8.5m, compared to the FY22 loss of \$1.2m, which was bolstered by covid-related sterile readiness Government payments.

Revenue grew consistently over the course of the year, with revenue of \$0.8m, \$1.7m, \$2.1m and \$2.4m in Q1-Q4 FY23, respectively.

Revenue growth was 25% vs pcp across the 3 key verticals (Specialty Orals, API manufacturing and Advanced Therapies (incl. sterile injectables)). Importantly, IDT has had initial wins in Advanced therapies, generating \$0.2m revenue in FY23.

IDT has made a strong start to implementing its turnaround strategy. Notably, revenue grew by 12% from the March to June quarters in FY23. Given the strong sales pipeline, we model the company exceeding this growth rate throughout FY24, boosting revenue to \$4.3m in Q424, an annualised rate of ~\$17m, close to the operating cash flow break even run rate.

With the revenue trajectory indicating a reasonable prospect of a return to profitability, and the stock trading below its net asset backing of ~7.9c/sh, we move from **No Rating** to a **Speculative Buy** recommendation.

#### Key Points

##### Potential for big wins in Advanced Therapies

IDT's capacity to produce cutting edge antibody/drug conjugates (ADC) to GMP standards is attracting considerable interest from potential clients, both locally and overseas. In order to build on this interest, it will attend the World ADC San Diego conference in October. IDT has already had some modest initial wins in this space, generating the first revenue (\$0.2m) from its Advanced Therapies vertical in FY23.

The interest that IDT is generating in its ADC manufacturing capability is noteworthy, because this vertical has the potential for multi-million dollar contract wins that could bring a step change in revenue growth.

##### Strong growth in pipeline opportunities

IDT generated considerable interest from potential clients when it attended the BIO 2023 conference in Boston, USA in early June; it generated 60 early stage leads in June, up from 18 in March 2023. This interest has resulted in a marked increase in requests for proposals from potential clients; as of mid-July, the total value of proposals submitted stood at ~\$30m.

IDT typically wins 40-50% of proposals submitted, although for overseas clients the win rate is lower (due to greater competition), probably closer to 25%.

IDT's Specialty Orals vertical, which generated 66% of revenue in FY23, continues to benefit from two favourable TGA policy changes implemented on 1 July 2023. This included allowing Authorised Prescribers to prescribe psychedelic medicines for specified conditions, and enforcing the requirement that medicinal cannabis drug products be manufactured to GMP standards.

##### Strengthened balance sheet

IDT raised \$7m via a placement and SPP in June and July, giving it a pro forma cash balance of ~\$7m. It also owns land and buildings valued at \$14.5m, giving it the option to access debt funding, if needed, while it seeks to grow revenue to sustainable levels. IDT currently has an unused \$5m debt facility.

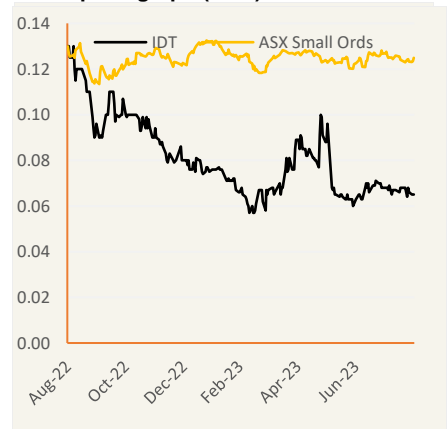
**Our conflicts of interests are disclosed on the last page of this report.**

### Speculative Buy

#### Summary (AUD)

Market Capitalisation	\$22M
Share price	\$0.064
52 week low	\$0.056
52 week high	\$0.14
Cash as at 3 June 2023	\$4.8m
Pro forma cash	~\$7m

#### Share price graph (AUD)



#### Key Financials (AUDm)

	FY23A	FY24E	FY25E
Revenue (\$m)	7.0	13.9	21.7
CoGS (\$m)	(3.2)	(3.9)	(5.2)
Other expenses (\$m)	(12.6)	(12.8)	(13.4)
EBITDA (\$m)	(8.7)	(2.8)	3.1
Reported NPAT (\$m)	(8.5)	(3.8)	2.2
NPAT Adj. (\$m)	(8.5)	(3.8)	2.2
EPS Adj. (c)	(3.5)	(1.1)	0.6
PE ratio (x)	n/a	n/a	10.4
DPS (c)	0.0	0.0	0.0
EV/Sales	2.0	1.0	0.7
EV/EBITDA (x)	n/a	n/a	4.6
ROE	n/a	n/a	6.7

IDT Australia - Summary of Forecasts

IDT \$0.064

PROFIT & LOSS SUMMARY (A\$m)

Year end June	FY22A	FY23A	FY24E	FY25E	FY26E
Sales revenue	12.1	6.9	13.9	21.7	26.0
Other income.	0.0	0.1	0.0	0.0	0.0
<b>Total Revenue</b>	<b>12.1</b>	<b>7.0</b>	<b>13.9</b>	<b>21.7</b>	<b>26.0</b>
Growth (pcp)	-28%	-41.9%	97.5%	56.2%	20.0%
CoGS	(1.4)	(3.2)	(3.9)	(5.2)	(6.0)
Other operating expenses	(11.0)	(12.6)	(12.8)	(13.4)	(14.0)
<b>EBITDA</b>	<b>(0.4)</b>	<b>(8.7)</b>	<b>(2.8)</b>	<b>3.1</b>	<b>6.1</b>
Dep'n/Amort'n	(1.5)	(1.0)	(1.0)	(1.0)	(1.0)
EBIT	(1.9)	(9.8)	(3.8)	2.1	5.1
Net Interest	0.0	0.0	0.0	0.0	0.1
Pre-Tax Profit	(1.9)	(9.8)	(3.8)	2.2	5.2
Tax Expense	0.7	1.3	0.0	0.0	0.0
<b>NPAT Adj.</b>	<b>(1.2)</b>	<b>(8.5)</b>	<b>(3.8)</b>	<b>2.2</b>	<b>5.2</b>
Growth (pcp)	n/a	n/a	n/a	n/a	139%
Adjustments	0.0	0.0	0.0	0.0	0.0
NPAT Reported	(1.2)	(8.5)	(3.8)	2.2	5.2

PER SHARE DATA

Year end June	FY22A	FY23A	FY24E	FY25E	FY26E
<b>EPS (c) - Reported</b>	<b>(0.5)</b>	<b>(3.5)</b>	<b>(1.1)</b>	<b>0.6</b>	<b>1.5</b>
Growth (pcp)	n/a	n/a	n/a	n/a	n/a
EPS (c) - Adjusted	(0.5)	(3.5)	(1.1)	0.6	1.5
Growth (pcp)	n/a	n/a	n/a	n/a	n/a
Dividend (c)	0.0	0.0	0.0	0.0	0.0
Franking	0.0	0.0	0.0	0.0	0.0
Gross CF per share (c)	1.2	(3.2)	(0.8)	0.4	1.5
NTA per share (c)	11.0	7.9	6.6	7.2	8.7

KEY RATIOS

Year end June	FY22A	FY23A	FY24E	FY25E	FY26E
Net Debt : Equity (%)	-31%	-15%	-14%	-17%	-29%
Net Debt: EBITDA (x)	22.8	0.4	1.2	(1.4)	(1.5)
Current ratio (x)	4.4	2.4	2.1	2.2	2.8
ROE (%)	-4%	-33%	-16%	9%	18%
ROIC (%)	n/a	n/a	n/a	8%	18%
Dividend Payout Ratio (%)	n/a	n/a	n/a	n/a	n/a

VALUATION MULTIPLES

Year end June	FY22A	FY23A	FY24E	FY25E	FY26E
<b>PE Ratio (x)</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>10.4</b>	<b>4.4</b>
<b>Dividend Yield (%)</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
EV/Sales (x)	1.2	2.0	1.0	0.7	0.5
EV/EBITDA (x)	n/a	n/a	n/a	4.6	2.3
EV/EBIT (x)	n/a	n/a	n/a	6.7	2.8

BALANCE SHEET SUMMARY

Year end June	FY23A	FY24E	FY25E	FY26E
Cash	4.4	4.0	5.0	9.7
Receivables	3.3	3.9	6.1	7.3
Inventories	1.4	1.7	2.6	3.1
Other	0.6	0.6	0.6	0.6
<b>Total Current Assets</b>	<b>9.7</b>	<b>10.2</b>	<b>14.3</b>	<b>20.7</b>
Inventories	0.0	0.0	0.0	0.0
Property Plant & Equip	18.5	18.1	17.7	17.3
Intangibles	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0
<b>Total Current Assets</b>	<b>18.5</b>	<b>18.1</b>	<b>17.7</b>	<b>17.3</b>
<b>TOTAL ASSETS</b>	<b>28.3</b>	<b>28.3</b>	<b>32.0</b>	<b>38.0</b>
Accounts Payable	1.9	2.8	4.3	5.2
Borrowings	0.7	0.7	0.7	0.7
Employee benefit obligations	0.5	0.5	0.5	0.5
Other	0.8	0.8	0.8	0.8
<b>Total Current Liab</b>	<b>4.0</b>	<b>4.9</b>	<b>6.5</b>	<b>7.3</b>
Borrowings	0.0	0.0	0.0	0.0
Provisions	0.2	0.2	0.2	0.2
Other	0.0	0.0	0.3	0.3
<b>Total Non-Current Liab</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
<b>TOTAL LIABILITIES</b>	<b>4.1</b>	<b>5.1</b>	<b>6.6</b>	<b>7.5</b>
<b>TOTAL EQUITY</b>	<b>24.1</b>	<b>23.2</b>	<b>25.4</b>	<b>30.5</b>

CASH FLOW SUMMARY

Year end June	FY23A	FY24E	FY25E	FY26E
<b>EBIT (excl Abs/Extr)</b>	<b>(9.8)</b>	<b>(3.8)</b>	<b>2.1</b>	<b>5.1</b>
Add: Dep'n & Amort'n	1.0	1.0	1.0	1.0
Change in Payables	0.6	0.9	1.6	0.9
Other non-cash items	0.2	0.0	0.0	(0.0)
Less: Tax paid	0.7	0.0	0.0	0.0
Net Interest	0.1	0.0	0.0	0.1
Change in Rec.	(0.5)	(0.6)	(2.2)	(1.2)
Change in Inv.	(0.3)	(0.3)	(0.9)	(0.5)
<b>Gross Cashflows</b>	<b>(7.9)</b>	<b>(2.7)</b>	<b>1.6</b>	<b>5.2</b>
Capex	(0.5)	(0.5)	(0.6)	(0.6)
<b>Free Cashflows</b>	<b>(8.4)</b>	<b>(3.3)</b>	<b>1.0</b>	<b>4.7</b>
Share Issue Proceeds	3.8	2.8	0.0	0.0
Other	(0.1)	0.0	0.0	0.0
Dividends Paid	0.0	0.0	0.0	0.0
<b>Net Cashflows</b>	<b>(4.8)</b>	<b>(0.4)</b>	<b>1.0</b>	<b>4.7</b>
FX Effect on Cash	0.0	0.0	0.0	0.0

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