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## R327 Diabetic Foot Infections Trial Starts – Interim Readouts Soon

### NEED TO KNOW

- Phase 1/2 proof-of-concept study in diabetic foot infections starts at Liverpool Hospital (Sydney)
- Assessing topical R327 for mild skin/soft tissue DFIs
- Interim readouts later in 3QCY23

**First patients dosed:** Recce Pharmaceuticals has announced that patient dosing has commenced for its 14-day Phase 1/2 proof-of-concept study of Recce® 327 (R327) as a diabetic foot infection (DFI) treatment. The 32 patient trial will evaluate the topical use of R327 as a broad-spectrum anti-infective treatment for mild skin and soft tissue DFIs and assess its efficacy and tolerability.

**Trial details:** The clinical trial is being conducted at Liverpool Hospital's South West Sydney Limb Preservation and Wound Research Unit. Patients will be dosed daily over 14 days with topical R327 by out-patient (at-home) nurses. The study aims to capture a broad patient pool while ensuring that treatment protocols are adhered to, and will consider the drug's ease of use as a topical application.

**Interim readouts coming shortly:** Recce has indicated that interim readouts on the study will be released later in 3QFY23.

### Investment Thesis

**Developing a new class of anti-infectives for hard-to-treat infections:** Recce is developing synthetic polymer anti-infective agents for bacterial and viral infections that are difficult to treat with existing medications. Its agents are based on the proprietary and novel acrolein polymer technology developed by Recce's founder and inventor, Dr Graham Melrose.

**Novel mechanism of action (MOA):** R327 shows a novel MOA in *in-vitro* testing. It is water-soluble at all pH levels, including that of the human stomach.

**Fighting back against antimicrobial resistance – even superbugs:** R327 is a novel, broad-spectrum anti-infective that is designed to overcome antimicrobial resistance, including superbug forms, even after repeated use.

**Substantial promise in preclinical testing:** R327 has shown significant selective interaction with a broad range of bacterial cells and viruses in preclinical testing to date.

### Valuation

We maintain our A\$2.77/share valuation, calculated using a risk-adjusted net present value (rNPV) method to discount future cash flows.

### Risks

Beyond technological risk, our valuation of Recce is subject to various risks typically associated with biotech companies in the early stages of drug development, including the possibility of unfavourable outcomes in clinical trials.

### Equities Research Australia

#### Pharmaceuticals, Biotechnology and Life Sciences

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Recce Pharmaceuticals is a clinical-stage biopharmaceutical company which is developing and commercialising a new class of synthetic anti-infectives to address antibiotic-resistant bacteria (superbugs) and emerging viral pathogens. Patented lead candidate RECCE® 327 (R327) is being developed in a variety of formulations to treat potentially life-threatening infections including sepsis due to Gram-positive and Gram-negative bacteria including superbug forms.

R327 is on the Pew Charitable Trust's Global New Antibiotics in Development Pipeline as the only synthetic polymer and sepsis drug candidate in development.

<https://www.recce.com.au>

Valuation	<b>A\$2.77</b> (unchanged)
Current price	<b>A\$0.69</b>
Market cap	<b>A\$127m</b>
Cash on hand	<b>A\$1.6m</b> (30 June 2023)

### Upcoming Catalysts/Newsflow

2HCY23	Readouts for rapid IV infusion study
2HCY23	Initiate Phase 2 sepsis trial
3QCY23	Interim readouts for Phase 1/2 DFI study
4QCY23	Phase 1/2 burn wound infection trial readout

### Share Price (A\$)



Source: FactSet, MST Access.

# Financial Summary

Recco Pharmaceuticals						RCE-AU
Year end 30 June, AUD unless otherwise noted						
<b>MARKET DATA</b>						
Price	\$	0.69				
52 week high / low	\$	0.51-0.93				
Valuation	\$	2.77				
Market capitalisation	\$m	122.9				
Shares on issue (basic)	m	178.1				
Options / rights	m	14.5				
Other equity	m	0.0				
Shares on issue (diluted)	m	192.6				
<b>12-MONTH SHARE PRICE PERFORMANCE (A\$)</b>						
<b>INVESTMENT FUNDAMENTALS</b>						
Reported NPAT	\$m	FY21A (13.5)	FY22A (11.0)	FY23E (9.7)	FY24E (8.8)	FY25E (8.3)
Underlying NPAT	\$m	(13.5)	(11.0)	(9.7)	(8.8)	(8.3)
Reported EPS (diluted)	¢	(8.7)	(6.3)	(5.5)	(5.0)	(4.3)
Underlying EPS (diluted)	¢	(8.7)	(6.3)	(5.5)	(5.0)	(4.3)
Growth	%					
Underlying PER	x	nm	nm	nm	nm	nm
Operating cash flow per share	¢	-5.1	-5.2	-5.4	-4.9	-4.3
Free cash flow per share	¢	-5.1	-5.2	-5.4	-5.0	-4.3
Price to free cash flow per share	x	nm	nm	nm	nm	nm
FCF Yield	%	nm	nm	nm	nm	nm
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%	100.0%	200.0%	300.0%	400.0%
Enterprise value	\$m	102.1	111.4	121.0	119.8	118.1
EV/EBITDA	x	(7.6)	(10.1)	(12.5)	(13.6)	(14.2)
EV/EBIT	x	(7.5)	(10.1)	(12.4)	(13.5)	(14.2)
Price to book (NAV)	x	3.6	9.3	262.6	75.2	37.1
Price to NTA	x	3.6	9.3	262.6	75.2	37.1
<b>KEY RATIOS</b>						
EBITDA margin	%	nm	nm	nm	nm	nm
EBIT margin	%	nm	nm	nm	nm	nm
NPAT margin	%	nm	nm	nm	nm	nm
ROE	%	nm	nm	nm	nm	nm
ROA	%	nm	nm	nm	nm	nm
Net tangible assets per share	\$	0.2	0.1	0.0	0.0	0.0
Book value per share	\$	0.2	0.1	0.0	0.0	0.0
Net debt/(cash)	\$m	(20.7)	(11.5)	(1.9)	(3.1)	(4.8)
Interest cover/ (EBIT/net interest)	x	nm	nm	nm	nm	nm
Gearing (net debt/EBITDA)	x	nm	nm	nm	nm	nm
Leverage (net debt/(net debt + equity))	x	nm	nm	nm	nm	nm
<b>DUPONT ANALYSIS</b>						
Net Profit Margin	%	nm	nm	nm	nm	nm
Asset Turnover	x	0.1	0.2	0.7	0.7	0.5
Return on Assets	%	nm	nm	nm	nm	nm
Leverage	x	1.1	1.3	10.8	3.7	2.4
Return on Equity	%	nm	nm	nm	nm	nm
<b>Clinical development pipeline</b>						
<b>Anti-bacterial programs</b>		<b>Indication</b>	<b>Status</b>			
R327 (intravenous)		Severe sepsis -blood poisoning	Phase 1			
R327 (intravenous)		Urinary tract infections	Phase 1b/2a			
R327 (topical)		Burn wound infection	Phase 1b/2a			
R327 (topical)		Diabetic foot ulcers	Phase 1b/2a			
R435 (oral)		<i>Helicobacter pylori</i> in stomach ulcers	Preclinical			
<b>Anti-viral programs</b>		<b>Indication</b>	<b>Status</b>			
R327 (nasal)		SARS-CoV-2 & other viral infections	Preclinical			
R529 (intravenous and nasal)		Viral infections	Preclinical			
<b>HALF YEARLY DATA</b>						
Total Revenue	\$m	2H21 1.2	1H22 0.0	2H22 3.1	1H23 0.0	2H23 3.6
Operating expenses	\$m	(4.5)	(5.0)	(9.1)	(9.2)	(4.1)
EBITDA	\$m	(3.3)	(5.0)	(6.0)	(9.2)	(0.5)
EBIT	\$m	(3.4)	(5.0)	(6.0)	(9.3)	(0.5)
PBT	\$m	(3.3)	(5.0)	(6.0)	(9.2)	(0.5)
Reported NPAT	\$m	(3.3)	(5.0)	(6.0)	(9.2)	(0.5)
<b>PROFIT AND LOSS</b>						
Revenue	\$m	0.0	0.0	0.0	0.0	0.0
Other income	\$m	1.9	3.1	3.6	4.2	4.2
Total Revenue	\$m	1.9	3.1	3.6	4.2	4.2
Operating expenses	\$m	(15.4)	(14.1)	(13.3)	(13.0)	(12.5)
EBITDA	\$m	(13.5)	(11.0)	(9.7)	(8.8)	(8.3)
Depreciation & Amortisation	\$m	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
EBIT	\$m	(13.6)	(11.1)	(9.8)	(8.8)	(8.3)
Net interest	\$m	0.1	0.1	0.1	0.0	0.0
Pretax Profit	\$m	(13.5)	(11.0)	(9.7)	(8.8)	(8.3)
Tax expense	\$m	0.0	0.0	0.0	0.0	0.0
Reported NPAT	\$m	(13.5)	(11.0)	(9.7)	(8.8)	(8.3)
Weighted average diluted shares	m	155.4	174.1	178.0	178.1	194.0
End of year shares		173.8	177.6	178.1	194.0	209.8
<b>GROWTH PROFILE</b>						
Revenue	%	65.6	66.1	16.4	16.4	0.0
EBITDA	%	217.8	(18.3)	(12.0)	(9.4)	(5.7)
EBIT	%	216.9	(18.7)	(11.9)	(9.4)	(5.6)
Reported NPAT	%	213.0	(18.7)	(11.6)	(9.1)	(5.7)
DPS	%	nm	nm	nm	nm	nm
<b>BALANCE SHEET</b>						
Cash	\$m	20.9	11.6	3.9	5.1	6.8
Receivables	\$m	0.2	0.2	0.2	0.2	0.2
Inventory	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	0.1	0.4	0.4	0.4	0.4
Current assets	\$m	21.2	12.2	4.5	5.7	7.4
PPE	\$m	0.4	0.4	0.4	0.4	0.3
Right-of-use assets	\$m	0.1	0.1	0.1	0.1	0.1
Intangible assets	\$m	0.0	0.0	0.0	0.0	0.0
Other	\$m	(0.0)	0.0	0.0	(0.0)	0.0
Non current assets	\$m	0.5	0.4	0.4	0.4	0.4
Total assets	\$m	21.7	12.6	4.9	6.1	7.8
Trade and other payables	\$m	0.6	0.8	0.8	0.8	0.8
Borrowing and leases	\$m	0.1	0.1	2.0	2.0	2.0
Other	\$m	0.3	1.6	1.6	1.6	1.6
Current liabilities	\$m	1.1	2.4	4.4	4.4	4.4
Borrowing and leases	\$m	0.0	0.0	0.0	0.0	0.0
Other liability	\$m	0.1	0.1	0.1	0.1	0.1
Non current liabilities	\$m	0.1	0.1	0.1	0.1	0.1
Total liabilities	\$m	1.2	2.6	4.5	4.5	4.5
Net assets	\$m	20.5	10.1	0.5	1.6	3.3
Share capital	\$m	43.3	44.0	44.1	54.1	64.1
Retained earnings	\$m	(31.5)	(42.5)	(52.2)	(61.0)	(69.3)
Other	\$m	8.7	8.6	8.6	8.6	8.6
Total equity	\$m	20.5	10.1	0.5	1.6	3.3
<b>CASH FLOW</b>						
Net loss for period	\$m	(13.5)	(11.0)	(9.7)	(8.8)	(8.3)
Depreciation & Amortization	\$m	0.1	0.0	0.0	0.0	0.0
Changes in working capital	\$m	0.1	1.5	0.0	0.0	0.0
Other	\$m	5.4	0.4	(0.0)	(0.0)	(0.0)
Operating cash flow	\$m	(7.9)	(9.0)	(9.7)	(8.8)	(8.3)
Payments for PPE	\$m	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Other	\$m	0.0	0.0	0.0	0.0	0.0
Investing cash flow	\$m	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Equity	\$m	26.2	0.0	0.0	10.0	10.0
Borrowing and Lease liability net payments	\$m	(0.2)	(0.1)	1.9	0.0	0.0
Other	\$m	0.1	(0.1)	0.1	0.0	0.0
Financing cash flow	\$m	26.1	(0.2)	2.0	10.0	10.0
Cash year end	\$m	20.9	11.6	3.9	5.1	6.8
Free cash flow	\$m	(7.9)	(9.1)	(9.7)	(8.8)	(8.3)

Source: Company reports, MST Access estimates

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