Update on Wellnex

# Revised Financial Projections and Valuation Outlook

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This desk note serves as an update to our previous report on Wellnex following significant revisions to their FY24 financial projections. The updated forecasts reflect material changes to our initial analysis, primarily due to operational headwinds.

Notably, the expansion of the Haleon in both products and territories has been delayed due to factors outside of both companies control with the launch to be in the first half of FY25. The delay was due to regulatory bottlenecks with the processing of its eight over-the-counter (OTC) applications and an additional manufacturing clearance application. The regulator's delays, extending screening times to 5-8 months before standard evaluation begins. These delays have not delayed the arrangement with Haleon but also orders from Arrotex and the JV brand with Chemist Warehouse, Wagner Health Liquigesics. Wellnex does not see any further delays and this will result in a significant revenue growth in FY25.

Additionally, as noted in the Half Year report, the delay in the settlement of Pain Away, was key factor in the financial recalibration. Settlement of Pain Away occurred in Late December, with first orders received in January 2024. We have seen since the acquisition the brand performing in both revenue and margins which has resulted the company recording an operational profit in February 2024.

This shows the strength of the business and the strategy of having multiple revenue streams that even when challenges arise the business is resilient to overcome them.

To sum up, while the regulatory delays have led to a deferral in product market entries and have affected the FY24 financial outlook, the recent pivot towards operational profitability and the progressive developments on the supply side are encouraging indicators. These developments, alongside the strengthened board and expanded Haleon partnership, position Wellnex favorably for rebound and growth in the coming periods.

## Outlook

Ahead of our detailed financial analysis, it's crucial to underscore Wellnex's strategic initiatives that project a positive trajectory for the company, notwithstanding recent delays.

## Board Enhancements

Wellnex has fortified its leadership with the appointment of Chemist Warehouse director, Mr. Mario Tascone, as Chair, alongside Mr. Andrew Vidler and Mr. Jeffrey Yeh. This infusion of seasoned expertise bodes well for navigating the consumer health landscape and enhancing corporate governance.

## Expansion and Strategic Partnerships:

Our optimism is further bolstered by Wellnex's expanded partnership with Haleon, now poised to offer an extended range of TGA-approved products across additional markets. The recent UK approval of Wellnex's analgesic under Haleon's Panadol brand lays the groundwork for FY25 sales commencement.

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## Leveraging Distribution for Growth:

Moreover, the exclusive distribution agreement with Homart Pharmaceuticals opens gateways into the robust Asian markets, harnessing Homart's extensive network in China, Taiwan, and Vietnam. This strategic move could significantly amplify Wellnex's sales in these regions.

The relationship with Haleon and Homart is significant as is provides potential expansion opportunity for Wellnex to capitalize on brand acquisitions such as Pain Away, and other owned brands products.

In summary, we remain confident in Wellnex's ability to emerge from the current challenges with a fortified market presence, backed by strategic partnerships and product approvals that promise a robust expansion in the forthcoming fiscal years.

## Revised Projections and Impact Analysis:

Revenue: The revised FY24 revenue projection indicates a sharp decline of 58.33% to $22,894 million, a sizable contraction from the previously projected $54,938 million. This adjustment comes in the wake of the deferred Pain Away acquisition and prolonged regulatory processes for their liquid gels in the UK.

Profitability Margins: Despite these headwinds, our revised model notes marginal improvements in the gross margin and EBITDA margin by 5.19% and 14.02%, respectively. However, these are overshadowed by the broader negative trends.

## Conclusion

The delay in FY24, while a point of adjustment, has not deterred Wellnex's commitment to long-term growth and market expansion. This strategic vision ensures that while the company recalibrates its immediate financial projections, it simultaneously sets the stage for future global outreach and revenue streams.

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| Income Statement | Jun-22 2022 | Jun-23 2023 | Jun-24 2024 | Jun-25 2025 | Jun-26 2026 |
|---|---|---|---|---|---|
| Sales | $18.793 | $27.892 | $22.894 | $49.202 | $78.867 |
| COGS | (14.107) | (23.138) | (15.243) | (32.670) | (55.848) |
| **Gross Profit** | **4.686** | **4.754** | **7.650** | **16.532** | **23.019** |
| *Gross Margin %* | *24,9%* | *17,0%* | *33,4%* | *33,6%* | *29,2%* |
| | | | | | |
| General & Administrative | (4.624) | (2.660) | (916) | (1.845) | (2.366) |
| Employee Expenses | (3.304) | (4.205) | (1.374) | (1.968) | (2.563) |
| Sales Marketing & Distribution | (1.666) | (4.434) | (2.289) | (4.428) | (6.309) |
| Depreciation & Amortization | (147) | (274) | (277) | (168) | (141) |
| Other Operating Expenses, net | (628) | (278) | 0 | 0 | 0 |
| **Operating Profit/ (Loss)** | **(5.683)** | **(7.097)** | **2.795** | **8.122** | **11.640** |
| *EBIT Margin %* | *(30,2%)* | *(25,4%)* | *12,2%* | *16,5%* | *14,8%* |
| | | | | | |
| Interest Expense, net | ($956) | ($1.682) | ($808) | ($808) | $0 |
| Other Expenses (impairments) | ($810) | ($5.067) | ($3.650) | $0 | $0 |
| **Pretax Profit / (Loss)** | **($7.449)** | **($13.846)** | **($1.663)** | **$7.314** | **$11.640** |
| Taxes | $0 | $0 | $0 | ($2.194) | ($3.492) |
| **Net Income** | **($7.449)** | **($13.846)** | **($1.663)** | **$5.120** | **$8.148** |
| *Net Margin %* | *(39,6%)* | *(49,6%)* | *(7,3%)* | *10,4%* | *10,3%* |
| | | | | | |
| **Shares** | | | | | |
| Basic Shares Outstanding (M) | 399,9 | 552,3 | 1.083,1 | 1.083,1 | 1.083,1 |
| Diluted Shares Outstanding (M) | 443,0 | 598,9 | 1.129,7 | 1.129,7 | 1.129,7 |
| | | | | | |
| EPS (basic) | (0,019) | (0,025) | (0,002) | 0,005 | 0,008 |
| EPS (diluted) | (0,017) | (0,023) | (0,001) | 0,005 | 0,007 |
| | | | | | |
| EBIT | (6.493,0) | (12.164,0) | (855,3) | 8.122,2 | 11.639,8 |
| EBITDA | (6.346,0) | (11.890,0) | (578,5) | 8.290,5 | 11.780,6 |
| | | | | | |
| Adj EBIT | (5.683,0) | (7.097,0) | 2.794,7 | 8.122,2 | 11.639,8 |
| Adj EBITDA | (5.536,0) | (6.823,0) | 3.071,5 | 8.290,5 | 11.780,6 |

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| Balance Sheet | Jun-22 2022 | Jun-23 2023 | Jun-24 2024 | Jun-25 2025 | Jun-26 2026 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | $3.181 | $322 | $614 | $5.711 | $7.445 |
| Trade and other receivables | $6.171 | $4.598 | $5.018 | $7.414 | $10.804 |
| Inventories | $4.319 | $3.029 | $3.341 | $3.580 | $4.590 |
| Prepayments and other | $168 | $3.428 | $373 | $368 | $498 |
| **Total current assets** | **$13.839** | **$11.377** | **$9.345** | **$17.073** | **$23.338** |
| Non-current assets | | | | | |
| Property, plant and equipment | $42 | $48 | $41 | $36 | $31 |
| Right-of-use assets | $269 | $153 | $0 | $0 | $0 |
| Intangibles | $5.459 | $3.462 | $23.847 | $23.683 | $23.547 |
| **Total non-current assets** | **$5.770** | **$3.663** | **$23.887** | **$23.719** | **$23.578** |
| **Total assets** | **$19.609** | **$15.040** | **$33.233** | **$40.792** | **$46.916** |
| Liabilities | | | | | |
| Current liabilities | | | | | |
| Trade and other payables | $7.086 | $7.111 | $4.594 | $9.846 | $16.831 |
| Borrowings | $2.377 | $6.788 | $6.788 | $6.788 | $572 |
| Lease liabilities | $95 | $110 | $55 | $18 | $0 |
| Employee benefit provisions | $192 | $287 | $87 | $124 | $162 |
| Provisions | $55 | $0 | $0 | $0 | $0 |
| **Total current liabilities** | **$9.805** | **$14.296** | **$11.524** | **$16.776** | **$17.565** |
| Non-current liabilities | $0 | $0 | $0 | $0 | $0 |
| Borrowings | $5.198 | $0 | $1.100 | $1.100 | $1.100 |
| Deferred Consideration | $0 | $0 | $5.650 | $2.825 | $0 |
| Lease liabilities | $188 | $52 | $0 | $0 | $0 |
| Employee benefit provisions | $59 | $98 | $28 | $41 | $53 |
| **Total non-current liabilities** | **$5.445** | **$150** | **$6.778** | **$3.966** | **$1.153** |
| **Total liabilities** | **$15.250** | **$14.446** | **$18.302** | **$20.742** | **$18.718** |
| | | | | | |
| Equity | | | | | |
| Issued capital | $102.620 | $112.424 | $128.424 | $128.424 | $128.424 |
| Reserves | $3.450 | $3.727 | $3.727 | $3.727 | $3.727 |
| Accumulated losses | ($101.711) | ($115.557) | ($117.220) | ($112.101) | ($103.953) |
| **Total equity** | **$4.359** | **$594** | **$14.931** | **$20.050** | **$28.198** |
| | | | | | |
| *Total Equity and Liabilities* | *$19.609* | *$15.040* | *$33.233* | *$40.792* | *$46.916* |
| *check* | *0* | *0* | *0* | *0* | *0* |

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| Cash Flow Statement | Jun-22 2022 | Jun-23 2023 | Jun-24 2024 | Jun-25 2025 | Jun-26 2026 |
|---|---|---|---|---|---|
| Net Income | | | ($1.663) | $5.120 | $8.148 |
| Depreciation and Amortization | | | 276,8 | 168,3 | 140,8 |
| Interest Expense | | | 808,1 | 808,1 | 0,0 |
| Changes in Working Capital | | | 0,0 | 0,0 | 0,0 |
| Accounts Receivables | | | (419,8) | (2.396,2) | (3.389,7) |
| Inventory | | | 788,0 | (239,3) | (1.010,0) |
| Prepayments and other | | | 855,4 | 4,2 | (130,1) |
| Accounts Payable | | | (2.517,1) | 5.251,9 | 6.985,1 |
| Employee Benefit Provisions | | | (200,2) | 37,6 | 37,6 |
| **Cash flow from Operating Activities** | | | **(2.072,2)** | **8.754,4** | **10.781,6** |
| Purchase/Sale of Fixed Assets, Net | | | (20.650,0) | 0,0 | 0,0 |
| Payment for purchase of business, net of cash | | | 5.650,0 | (2.825,0) | (2.825,0) |
| **Cash flow from Investing Activities** | | | **(15.000,0)** | **(2.825,0)** | **(2.825,0)** |
| Inc / (Dec) in equity | | | 0,0 | 0,0 | 0,0 |
| Inc / (Dec) in equity due to rights issue | | | 16.000,0 | 0,0 | 0,0 |
| Inc / (Dec) in existing debt | | | 1.100,0 | 0,0 | (6.216,0) |
| Inc / (Dec) in Reserves | | | 0,0 | 0,0 | 0,0 |
| Interest Paid | | | (808,1) | (808,1) | 0,0 |
| Repayment of lease liabilities | | | (107,0) | (36,7) | (18,3) |
| Repayment of Employee Benefit Provisions | | | (69,7) | 12,2 | 12,2 |
| **Cash flow from Financing Activities** | | | **16.115,2** | **(832,5)** | **(6.222,1)** |
| **Net Change in Cash** | | | (957,0) | 5.096,9 | 1.734,5 |
| **Beginning balance sheet cash** | | | **1.570,9** | **613,9** | **5.710,8** |
| Ending balance sheet cash | | | 613,9 | 5.710,8 | 7.445,3 |

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| EV/EBITDA | | 2024E | 2025E | 2026E |
|---|---|---|---|---|
| EBITDA | A$m | 3.071 | 8.291 | 11.781 |
| Multiple | x | 13x | 12x | 11x |
| **Target EV** | **A$m** | **$40.685** | **$99.707** | **$134.598** |
| Less Net Debt | A$m | 7.274 | 2.177 | (5.773) |
| **Equity Value** | **A$m** | **$33.411** | **$97.530** | **$140.371** |
| p/f Shares Outstanding | Mln | 1.130 | 1.130 | 1.130 |
| **Equity Value per share** | | **$ 0,03** | **$ 0,09** | **$ 0,12** |

| EV/Sales | | 2024E | 2025E | 2026E |
|---|---|---|---|---|
| Sales | A$m | 22.894 | 49.202 | 78.867 |
| Multiple | x | 4x | 4x | 4x |
| **Target EV** | **A$m** | **$92.005** | **$183.767** | **$278.908** |
| Less Net Debt | A$m | 7.274 | 2.177 | (5.773) |
| **Equity Value** | **A$m** | **$84.731** | **$181.590** | **$284.682** |
| p/f Shares Outstanding | Mln | 1.130 | 1.130 | 1.130 |
| **Equity Value per share** | | **$ 0,08** | **$ 0,16** | **$ 0,25** |

| Price/Earnings | | 2024E | 2025E | 2026E |
|---|---|---|---|---|
| **Net Income** | **A$m** | **-1.663** | **5.120** | **8.148** |
| Multiple | x | 23x | 21x | 20x |
| **Equity Value** | **A$m** | **($39.066)** | **$107.768** | **$162.928** |
| p/f Shares Outstanding | Mln | 1.130 | 1.130 | 1.130 |
| **Equity Value per share** | | **-$ 0,03** | **$ 0,10** | **$ 0,14** |

| Equity Value p/s | | 2024E | 2025E | 2026E |
|---|---|---|---|---|
| EV/Sales | | $ 0,08 | $ 0,16 | $ 0,25 |
| EV/EBITDA | | $ 0,03 | $ 0,09 | $ 0,12 |
| Price/Earnings | | -$ 0,03 | $ 0,10 | $ 0,14 |
| | | $0,00 | $0,10 | |
| 12-18m Price Target | | $ 0,099 | | |
| Liquidity Discount | | 20,0% | | |
| 12-18m Price Target | | $ 0,079 | | |

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