

Revised Financial Projections and Valuation Outlook

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.

Revised Financial Projections and Valuation Outlook

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 it 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.

Revised Financial Projections and Valuation Outlook

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

Revised Financial Projections and Valuation Outlook

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

Revised Financial Projections and Valuation Outlook

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

Revised Financial Projections and Valuation Outlook

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		

Revised Financial Projections and Valuation Outlook

Disclaimer

This document is provided by Vested Equities Pty Ltd (ABN 54 601 621 390; AFSL 478987) (“Vested”) trading as SmallCapInsider. The material in this document may contain general advice or recommendations which, while believed to be accurate at the time of publication, are not appropriate for all persons or accounts. This document does not purport to contain all the information that a prospective investor may require. The material contained in this document does not take into consideration an investor’s objectives, financial situation or needs. Before acting on the advice, investors should consider the appropriateness of the advice, having regard to the investor’s objectives, financial situation and needs. The material contained in this document is for sales purposes. The material contained in this document is for information purposes only and is not an offer, solicitation or recommendation with respect to the subscription for, purchase or sale of securities or financial products and neither or anything in it shall form the basis of any contract or commitment. This document should not be regarded by recipients as a substitute for the exercise of their own judgment and recipients should seek independent advice. The material in this document has been obtained from sources believed to be true but neither Vested nor its associates make any recommendation or warranty concerning the accuracy, or reliability or completeness of the information or the performance of the companies referred to in this document. Past performance is not indicative of future performance. Any opinions and or recommendations expressed in this material are subject to change without notice and Vested is not under any obligation to update or keep current the information contained herein. References made to third parties are based on information believed to be reliable but are not guaranteed as being accurate. Vested and its respective officers may have an interest in the securities or derivatives of any entities referred to in this material. Vested does, and seeks to do, business with companies that are the subject of its research reports. The analyst(s) hereby certify that all the views expressed in this report accurately reflect their personal views about the subject investment theme and/or company securities. Although every attempt has been made to verify the accuracy of the information contained in the document, liability for any errors or omissions (except any statutory liability which cannot be excluded) is specifically excluded by Vested, its associates, officers, directors, employees and agents. Except for any liability which cannot be excluded, Vested, its directors, employees and agents accept no liability or responsibility for any loss or damage of any kind, direct or indirect, arising out of the use of all or any part of this material. Recipients of this document agree in advance that Vested is not liable to recipients in any matters whatsoever otherwise recipients should disregard, destroy or delete this document. All information is correct at the time of publication. Vested does not guarantee reliability and accuracy of the material contained in this document and is not liable for any unintentional errors in the document. The securities of any company(ies) mentioned in this document may not be eligible for sale in all jurisdictions or to all categories of investors. This document is provided to the recipient only and is not to be distributed to third parties without the prior consent of Vested.