# Propanc Health Group Corp (OTCQB: PPCH, Target Price: $0.87)

Propanc is a research and development company with primary activity in developing a long-term therapy to prevent tumor recurrence and metastasis, which is the main cause of patient death from cancer. Propanc's pro-enzyme therapy- chiefly its lead drug candidate, PRP- aims to solve this problem by targeting malignant cancer cells through multiple pathways that creates a lasting clinical benefit for the patient. Propanc is currently completing non-clinical studies and intends to undertake Phase I, II and III clinical trials to assess the safety and efficacy of their product in specific patient populations. The Company is also preparing for the regulatory agency meetings early next year in order to confirm the clinical development pathway for PRP.

## Investment Highlights

### Propanc progressing towards several milestones

Propanc has several potential milestones ahead as the company advances development of its lead therapeutic candidate, PRP. The company has scheduled a scientific advice meting with the MHRA (Medicines and Healthcare Products Regulatory Agency), UK, which is expected to occur during April. The meeting will include data from its recent 14-day dose range finding study in rats, which will be used to determine appropriate dosing levels for Propanc's upcoming 28 day toxicology study. Propanc also expects to file an application for an orphan drug designation in the US and EU for pancreatic and ovarian cancers by the end of 2016. If accepted the designation could allow for an accelerated and less costly time clinical pathway for PRP. Propanc is targeting the commencement of early stage patient trials by the end of 2016/ early 2017. Clearly the dose limiting data and any outcomes form its conversations with regulators could provide additional insight into the how we should view the company's therapeutic clinical pipeline.

### Recent financing to advance pre-clinical studies

On March 21, 2016, Propanc announced the receipt of $1.2mn from an institutional investor for the purpose of fast-tracking its pre-clinical activities. With the investment, Propanc has now received a total of approximately $3.6mn from the institutional investor since the Securities Purchase Agreement, Debenture and Warrant were executed by both parties on October 28, 2015, which SeeThruEquity highlighted in its November 24, 2015 update note on the company. Management has indicated that the funds are intended to support the completion of a 28-day animal safety toxicology study, as well as the development of bioanalytical methods for animals and humans in order to assess the movement of the drug within the body. Propanc also expects recent funding will be used to secure GMP manufacturing and to prepare applications for future patient trials, which Propanc management expects to file later in 2016. The company also announced that it will be in New York for a roadshow from April 28, 2016 to May 4, 2016, during which it will provide an update on its activities. This is likely to include a review of any outcomes with its meeting with the MHRA.

### Price target of $0.87 for PPHC

We are adjusting our price target to $0.87 for PPCH. The adjustment is solely related to the increase in shares since we conducted our initial valuation of the company in 2015. We continue to see Propanc as an intriguing microcap biotechnology company with a pre-clinical therapeutic pipeline targeting multi-billion dollar market opportunities such as pancreatic, ovarian cancer, and colorectal cancer.

### Stock Details (4/11/16)

| | |
|---|---|
| OTCQB: | PPCH |
| Sector / Industry | Healthcare / Biotechnology |
| **Price target** | **$0.87** |
| Recent share price | $0.03 |
| Shares o/s (mn) | 584.5 |
| Market cap (in $mn) | 16.2 |
| 52-week high/low | $0.13 / 0.01 |

*Source: Thomson Reuters, SeeThruEquity Research*

### Key Financial ($mn, unless specified)

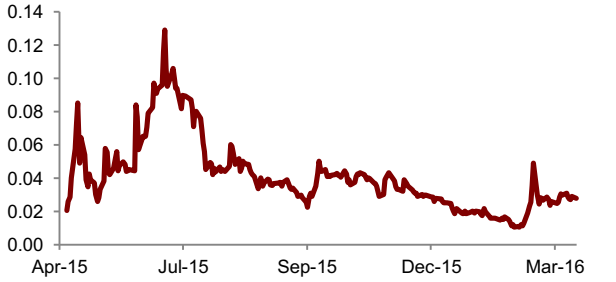
| | FY13A | FY14A | FY15A |
|---|---|---|---|
| Revenues | 0.0 | 0.0 | 0.0 |
| EBITDA | (1.3) | (0.7) | (1.3) |
| EBIT | (1.4) | (0.8) | (1.7) |
| Net Income | (1.4) | (0.8) | (3.4) |
| EPS ($) | (0.02) | (0.01) | (0.02) |

*Source: SeeThruEquity Research*

### Key Ratios

| | FY13 | FY14 | FY15E |
|---|---|---|---|
| Gross margin (%) | NM | NM | NM |
| Operating Margin (%) | NM | NM | NM |
| EBITDA margin (%) | NM | NM | NM |
| Net margin (%) | NM | NM | NM |
| P/Revenue (x) | NM | NM | NM |
| EV/Revenue (x) | NM | NM | NM |

*Source: SeeThruEquity Research*




*Source: Thomson Reuters*

Figure 1. Income Statement Summary

| Figures in $, unless specified | FY2Q16 | FY2Q15 | 1HFY16 | 1HFY15 |
|---|---|---|---|---|
| **Revenues** | **0** | **0** | **0** | **0** |
| YoY growth | NM | | NM | |
| **General and Administrative** | **996,129** | **244,431** | **1,845,108** | **475,913** |
| **Occupancy Costs** | **4,889** | **2,567** | **9,827** | **5,344** |
| **Research & Development** | **142,803** | **2,443** | **296,277** | **6,322** |
| **Operating Expenses** | **1,143,821** | **249,441** | **2,151,212** | **487,579** |
| YoY growth | 358.6% | | 341.2% | |
| **Operating Income (Loss)** | **(1,143,821)** | **(249,441)** | **(2,151,212)** | **(487,579)** |
| Operating Margin % | NM | NM | NM | NM |
| **Interest Expense** | **(1,155,645)** | **(100,176)** | **(1,574,289)** | **(648,655)** |
| **Change in FV of Derivatives & Other Items** | **(1,406,636)** | **79,353** | **(608,756)** | **107,627** |
| **Foreign Currency** | **72,035** | **(157,655)** | **(138,704)** | **(182,612)** |
| **Total Other Items** | **(2,490,246)** | **(178,478)** | **(2,321,749)** | **(723,640)** |
| **PreTax Income (loss)** | **(3,634,067)** | **(427,919)** | **(4,472,961)** | **(1,211,219)** |
| **Income Tax Benefit (Expense)** | **72,000** | **82,440** | **72,000** | **82,440** |
| **Net Income (loss)** | **(3,562,067)** | **(345,479)** | **(4,400,961)** | **(1,128,779)** |
| **Other Comprehensive Income (Loss)** | **(146,551)** | **103,320** | **111,879** | **218,137,** |
| **Comprehensive Income** | **(3,708,618)** | **(242,159)** | **(4,289,082)** | **(910,642)** |
| **EPS** | **(0.01)** | **(0.00)** | **(0.01)** | **(0.01)** |
| **Avg Shares outstanding in period** | **399,822,354** | **95,007,061** | **375,025,485** | **85,827,403** |

*Source: Company Form 10Q, SeeThruEquity Research*

## Results reflect continued investment in operations and preclinical pipeline

- Propanc reported EPS of (0.01) for the December quarter. As an early stage healthcare company undertaking research and development activities, Propanc reported no revenues. Operating expenses increased to $1.1mn in the quarter, due to higher stock compensation expenses and higher research and development expenses. Net loss of ($3.6mn) in the period included many non-cash items. The company has used ($1.5mn) in cash from its operations in the first six months of the fiscal year.

- **Key Balance Sheet Metric:** At the end of the quarter Propanc had cash on hand of $1.2mn and current assets of $1.5mn versus current liabilities of 4.9mn. Current liabilities include $1.9mn and $2.5mn in convertible notes and embedded conversion option liabilities, respectively. We believe the company has converted a portion of the convertible debt to equity during the March quarter, based on notes in its 10-Q. Propanc reported a stockholder's deficit of 3.4mn, versus a deficit of $3.1mn at the end of June 2015.

- We see the balance sheet as a key item to watch for Propanc, and were pleased to see the company's recent announcement of $1.2mn in new financing from an institutional investor during March, which is discussed in greater detail below.

## Propanc moving towards pre-clinical studies targeting multi-billion dollar market

- **Large market opportunity:** As we have noted in our prior notes on the company, Propanc is pursuing a large market opportunity as it seeks to fast track the development of proenzyme related oncology products. The company first plans to develop clinical trials targeting pancreatic cancer and ovarian cancer, followed by colorectal cancer. The company will be targeting patients with limited therapeutic options for solid tumors, and in the future intends to develop products to treat early stage cancer, precancerous diseases and potentially as preventative treatment for patients at high risk of developing cancer based on genetic screening. According to Global Analyst Reports, the combined world market for pancreatic, ovarian and colorectal cancers are expected to reach over $12 billion by 2020.

- **MHRA Meeting:** Propanc has identified several upcoming milestones, which we expect will provide more insight into how the company is progressing. First among these is a scientific advice meting with the MHRA (Medicines and Healthcare Products Regulatory Agency), UK, which is expected to occur during April.

- **Dose range finding study:** Importantly, the company also stated that it is currently compiling results from its recent 14-day dose range finding study in rat. The results will be used for the determination of appropriate dosing levels for the company's upcoming 28 day toxicology study. Propanc has stated that the data from the dose range finding study will be compiled prior to its meeting with the MHRA and will be incorporated into the submission for the MHRA in order to discuss the next stage of development activities, which "could lead into early stage patient trials in 2016, or first quarter 2017." Clearly the initiation of early stage patient trials would be a significant step in the advancement of Propanc's pipeline.

- **Orphan Drug Application:** We also expect the company to submit applications for orphan drug designation in the US and EU for pancreatic and ovarian cancers before the end of 2016, in line with management's guidance. If granted, the orphan drug designation would be a significant achievement for Porpanc as it will enable a faster development timeline.

## Propanc secures $1.2mn to fast track preclinical studies; announces institutional investor roadshow in NYC

- **Propanc receives $1.2mn; total proceeds from investor stand at $3.6mn:** On March 21, 2016, Propanc announced that it had received an investment of $1.2mn from an institutional investor for the purpose of fast-tracking its pre-clinical activities. With the investment, Propanc has now received a total of approximately $3.6mn from the institutional investor since the Securities Purchase Agreement, Debenture and Warrant were executed by both parties on October 28, 2015, which SeeThruEquity highlighted in its November 24, 2015 update note on the company.

- **Propanc to fast-track PRP pre-clinical activity with funds:** Propanc stated that the additional $1.2mn in capital will enable the company to fast track the development of PRP into patient trials, which should include the anticipated include completion of a 28-day animal safety toxicology study, as well as the development of bioanalytical methods for animals and humans in order to assess the movement of the drug within the body. Propanc management also expects the proceeds of the investment will be used to support Propanc in securing GMP manufacturing and preparing applications for future patient trials, which Propanc management expects to file later in 2016.

- **Propanc to provide MHRA update in upcoming NYC roadshow in NYC**: On March 31, 2016 Propanc announced that its CEO James Nathanielsz would visit New York for meetings with institutional investors. Nathanielsz will be meeting with investors and potential investors from April 28, 2016 to May 4th, 2016, at The meetings will be conducted at the headquarters of Consulting for Strategic Growth 1 (CFSG1) Ltd.

- We see the roadshow as an incremental positive for the company given the need for financing as well as the opportunity to glean more insight into the company's growth plans in progress on its clinical pipeline. Importantly, the company indicated that it expects to complete its Scientific Advice meeting with the MHRA (Medicines and Healthcare Products Regulatory Agency), where it has been working to transition its lead product, PRP, into formal preclinical development and early stage patient trials.

## Propanc remains an intriguing speculative growth opportunity in microcap biotech; adjusting target to $0.87

- We continue to see Propanc as developing an intriguing method to combat malignant cancer with its pro-enzyme therapy and lead candidate PRP. With the recent funding accomplishments we are looking forward to seeing the performance of Propanc's candidates in animal efficacy studies in preclinical research.

- We are adjusting our price target to $0.87, solely reflecting new shares issued since our initial valuation. The new price target considered shares outstanding of 584.5mn, versus 334.9mn when we initiated coverage in 2015. While the degree of dilution is not ideal, new equity funding is required to advance the development of Propanc's therapeutic portfolio.

- The company has articulated its aspiration to uplist to a national exchange, which we expect would include an additional financing as well as reverse split in order to meet minimum bid and shareholders' equity requirements.

## Management Team

### James Nathanielsz B.App.Sc, MEI – Executive Chairman

James Nathanielsz has served as a director since inception. Mr. Nathanielsz has served as a director and Chief Executive Officer of Propanc's Australian company since October 2007. From July 2006 until October 2007, Mr. Nathanielsz served as the New Products Manager of Biota Holdings Limited, an anti-infective drug development company in Australia. Mr. Nathanielsz was selected as a director because he is the Co-Founder of Propanc's Australian company and for his experience in R&D and manufacturing and distribution.

Mr. Nathanielsz graduated with a Bachelor of Applied Science, majoring in Biochemistry/Applied Chemistry and subsequently with a Master of Entrepreneurship & Innovation from Swinburne University of Technology in Melbourne, Australia.

### Dr. Julian Kenyon MB, ChB, MD – Chief Scientific Officer

Dr. Julian Kenyon has served as a director since Propanc's inception. Dr. Kenyon founded Propanc's Australian company and was appointed as a director of our Australian company on February 12, 2008. Since 2000, Dr. Kenyon has served as an integrated medical physician and Medical Director of the Dove Clinic for Integrated Medicine in Winchester and London. Dr. Kenyon is the Founder-Chairman of the British Medical Acupuncture Society in 1980 and Co-Founder of the Centre for the Study of Complementary Medicine in Southampton and London. Dr. Kenyon was selected as a director because he is the Co-Founder of the Australian subsidiary and the business is based on his initial work at the Dove Clinic.

Dr. Kenyon graduated from the University of Liverpool with a Bachelor of Medicine and Surgery and subsequently with a research degree, Doctor of Medicine. Since 1972, he was appointed a Primary Fellow of the Royal College of Surgeons, Edinburgh.

### Professor Klaus Kutz, M.D – Chief Medical Officer

Professor Kutz has ten years of experience as independent consultant in Clinical Pharmacology and Safety for pharmaceutical companies and clinical research organizations. His specialty over the last six years is Oncology, including preparation of multiple NDAs and INDs for small and medium sized pharmaceutical companies. He has prepared, organized and reported clinical Phase I studies in oncology and Phase II studies in different cancer indications (prostate, gastric, ovarian, small cell lung cancer) and Non-Hodgkin Lymphomas.

Professor Kutz has more than 12 years experience as Head of Clinical Pharmacology with world-wide responsibilities for Phase I and Clinical Pharmacokinetics in two internationally operating pharmaceutical companies, setting up and restructuring international Clinical Pharmacology departments. His achievements include the successful world-wide registration of multiple important Sandoz' compounds by preparation of multiple NDAs (New Drug Applications) and Expert reports (including Written Summary), as well as the preparation of multiple INDs (Investigational New Drug Applications) for Sandoz Pharma Ltd and Sanofi Research. A specialist for Internal Medicine, Gastroenterology, and Clinical Pharmacology, he is also Professor of Medicine at the University of Bonn, Germany.

## About Propanc Health Group Corporation

Propanc is currently focused on developing new cancer treatments for patients suffering from pancreatic, ovarian and colorectal cancers. We have developed a formulation of anti-cancer compounds which exert a number of effects designed to control or prevent tumors from recurring and spreading throughout the body. Our products involve or employ proenzymes, which are inactive precursors of enzymes.

In the near term, we intend to target patients with limited remaining therapeutic options for the treatment of solid tumors such as colorectal or pancreatic tumors. In future, we intend to develop our lead product to treat (i) early stage cancer and (ii) pre-cancerous diseases and (iii) as a preventative measure for patients at risk of developing cancer based on genetic screening. For more information, visit: www.propanc.com.

## CONTACT:

Ajay Tandon
Director of Research
SeeThruEquity, LLC
www.seethruequity.com
(646) 495-0939
ajay@seethruequity.com

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