

Friday, 20 July 2018

Botanix (BOT)

Research Collaboration with University of Queensland Institute for Molecular Bioscience in relation to BTX 1801

Analyst | Michael Eidne

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|-----------------------|-----------------|
| Recommendation | Spec Buy |
| Current Price | \$0.105 |
| Valuation | \$0.20 |
| Market Cap | \$75.7m |

Quick Read

BOT has received funding from the Australian Government to undertake a research collaboration with the University of Queensland Institute for Molecular Bioscience to study the effectiveness of its Cannabidiol (CBD) based compound, BTX 1801, as an antimicrobial agent with a particular focus on drug-resistant bacteria. If the research project has a positive outcome, the impact on BOT could be material as drug-resistant bacteria in skin disease is a major issue because very few new compounds have been developed to combat the mounting resistance bacteria have to current treatments. We maintain our Speculative Buy recommendation and a \$0.20 valuation.

Event | Positive

BOT's laboratory testing has shown that CBD has antimicrobial properties: BOT announced on the 2nd of July that laboratory testing had shown that Cannabidiol (CBD) displayed antimicrobial properties which may have the potential to be used against anti-biotic resistant skin infections. Based on these findings, BOT is in the process of developing a new CBD based compound, BTX 1801, to target skin infections.

BOT has been awarded an Innovation Connections Grant from the Australian Government: The Australian Government has awarded BOT an Innovation Connections Grant to further investigate these findings in collaboration with the University of Queensland Institute for Molecular Bioscience. The research will be led by Professor Matt Cooper and Dr Mark Blaskovich who are experts in the field of antimicrobial drug discovery and development. The group they lead is aptly called the Centre for Super Bug Solutions (CSS). Their particular focus is on antimicrobial resistance and CSS has a library of antimicrobial resistant microorganisms as well as more common microorganisms that can be used to test the effectiveness of BTX 1801 combined with Permetrex®. The CSS scientists are of the view that while CBD shows interesting preliminary results, it will be key to determine the effect CBD has on drug-resistant bacteria and to determine if the bacteria rapidly develops resistance to CBD once exposed to BTX 1801. CSS is an independent organisation, and the funding is from the Australian Government which will make the results independent of BOT initial findings.

Results from this study will help determine the design of a potential clinical study: CSS plan to test CBD on drug-resistant bacteria and more common bacteria, and the results will help determine whether BTX 1801 will then be further tested in a clinical trial. The data from this study will then be used to design the clinical trial and its end points.

The discovery of a new antibiotic compound would be an important milestone for BOT: All bacteria develop resistance to antibiotics over time, but the issue is that not enough new compounds have been developed to replace those that have lost their efficacy over time. If BTX 1801 is proven to be effective anti-biotic, especially if it is effective against drug-resistant bacteria and bacteria treated with BTX 1801 do not rapidly develop resistance to CBD, BTX 1801 has the potential to be a blockbuster drug. BOT's suite of CBD based treatments would be very attractive for big pharma. Novartis recently acquired an Atopic Dermatitis treatment for US\$111m and a potential US\$1 billion in milestones payments and royalties. The treatment is still in the trial phase and has yet to receive FDA approval. This deal demonstrates the potential for BOT's products if the ongoing laboratory studies and clinical studies are successful.

Our View

The research collaboration and funding by the Australian Government is a positive development for the Company because BOT is having its findings verified by an independent scientific authority. The ability of CBD to impact drug resistance bacteria in skin disease is an important claim that needs to independently proven as the potential ramifications of a new skin treatment for drug-resistant bacteria would be significant. A successful new treatment with the CBD safety profile would be a very valuable asset for BOT and in our view will attract the attention of big pharma.

Recommendation

We maintain our Speculative Buy recommendation and a \$0.20 valuation.

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