

GI Dynamics Inc

GID AU / GID.AX

3QFY13 RESULTS NOTE

Market Cap US\$296.5m <small>A\$312.0m</small>	Avg Daily Turnover US\$0.41m <small>A\$0.44m</small>	Free Float 82.0% <small>67.25 m shares</small>	Current A\$0.80	SHORT TERM (3 MTH) TRADING BUY	LONG TERM OUTPERFORM
			Target A\$1.75	TRADING SELL	NEUTRAL
			Prev. Target A\$1.85		
			Up/Downside 118.4%		UNDERPERFORM

Important: The recommendation has been made on a 12 month view and may not suit your investment needs or timeframe. The basis it is prepared on is summarised on the last page of this report. **PLEASE CONTACT YOUR ADVISER TO DISCUSS THIS GENERAL RECOMMENDATION BEFORE ACTING ON IT.**

Moderate Volatility

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GID131031

Share price info

Share price perf. (%)	1M	3M	12M
Relative	-6.4	3.7	13.2
Absolute	-2.4	11.1	33.3

Major shareholders	% held
M&G	13.1
Medtronic	12.3
J&J	11.9

3Q13: Continued progress

EndoBarrier commercialisation efforts continue, with 44 centres of excellence (COE) now treating patients, increasing awareness in both self-pay and targeted reimbursement markets. US trial cost and timeline increases do not impact our profitability timeline, with broadened enrolment criteria favourably expanding the potential patient population.

We adjust our near to medium-term estimates on ramping EndoBarrier sales offset by increasing clinical costs, which makes near-term gains lumpy. However, we continue to forecast 2016 profitability. Our DCF/SOTP-based target price falls to A\$1.75 from A\$1.85. We maintain our Outperform rating.

Cash utilisation in line

3Q13 net loss was US\$8.1m (+23% yoy) on revenue of US\$0.49m (+255% yoy; +64% qoq). We estimate EndoBarrier placements of 149 (+42% qoq), slightly ahead of our estimate of 145. Deferred revenues rose US\$0.6m to US\$1.3m, reflecting higher volumes. COGS leverage was evident, with growth of 100% to US\$0.4m, with opex increasing 16% to US\$8.6m. Operating cash utilisation was US\$8.7m, in line with our US\$8.5m estimate, with a cash balance of US\$66m (post US\$52.5m net private placement; 22.6m shares, 112.9m CDIs).

Progress on multiple fronts

EndoBarrier continues to advance on commercial/clinical fronts: 1) 44 COEs (+57% since YE12; 4.8% qoq) are open and treating patients; 2) preliminary reimbursement codes have been secured in Germany and Switzerland, a precursor to national reimbursement; 3) a marketing campaign is expanding the self-payer market in Australia; and 4) a growing list of publications, international conferences and key opinion leader engagements are noting EndoBarrier's differentiated attributes.

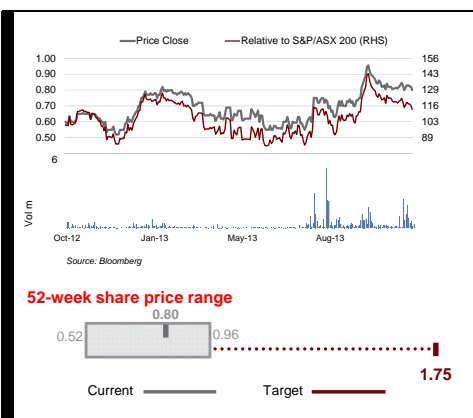
US trial cost/time increase

The inclusion criteria in the pivotal ENDO trial have been broadened to help accelerate patient enrolment and potential patient population, with 17 clinical sites now open (12 in 2Q13). However, the expansion comes at the added expense of US\$5-10m (total trial cost US\$40-45m, prior US\$35m) and pushes out full recruitment by 3-6 months (by YE14; prior mid-14).

Results Comparison

FYE Dec (US\$m)	3Q13A	3Q12A	yoy % chg	FY13F (new)	FY13F (prev)	% chg	Comments
Revenue	0.49	0.14	254.7	1.85	2.21	-16.12	In line with expectations
Operating costs	-8.64	-7.43	16.38	-39.33	-40.61	-3.15	R&D US\$3.9m, +26% yoy; SG&A of US\$4.8m, +12% yoy
EBITDA	-8.15	-7.29	11.84	-37.47	-38.40	-2.40	
EBITDA margin (%)	nm	nm	nm	nm	nm	nm	
Depn & amort.	-0.05	-0.01	300.0	-0.20	-0.20	0.00	
EBIT	-8.20	-7.30	12.33	-37.67	-38.60	-2.39	Slightly above expectations on higher expenses
Interest expense	0.00	0.00	na	0.00	0.00	na	
Interest & invt inc	0.10	0.70	-85.71	1.48	1.48	0.00	
Associates' contrib	0.00	0.00	na	0.00	0.00	na	
Exceptionals	0.00	0.00	na	0.00	0.00	na	
Pretax profit	-8.10	-6.60	22.73	-36.19	-37.11	-2.48	Broadly in line with expectations
Tax	0.00	0.00	na	0.00	0.00	na	
Tax rate (%)	0.00	0.00	na	0.00	0.00	na	
Minority interests	0.00	0.00	na	0.00	0.00	na	
Net profit	-8.10	-6.60	22.73	-36.19	-37.11	-2.48	Cash utilisation US\$8.7m
Core net profit	-8.10	-6.60	22.73	-36.19	-37.11	-2.48	
EPS (cps)	-0.13	-0.12	8.34	-56.03	-61.60	-9.04	
Core EPS (cps)	-0.13	-0.12	8.34	-56.03	-61.60	-9.04	

SOURCE: CIMB, COMPANY REPORTS



Financial Summary

	Dec-12A	Dec-13F	Dec-14F	Dec-15F	Dec-16F
Revenue (US\$m)	0.67	1.85	10.15	49.80	83.40
Operating EBITDA (US\$m)	-29.95	-37.47	-41.00	-15.41	7.28
Net Profit (US\$m)	-26.79	-36.19	-38.97	-14.04	7.13
Normalised EPS (US\$)	-0.71	-0.56	-0.60	-0.18	0.09
Normalised EPS Growth	(45.1%)	12.1%	(24.2%)	(70.6%)	na
FD Normalised P/E (x)	NA	NA	NA	NA	1.79
DPS (US\$)	-	-	-	-	-
Dividend Yield	0%	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	NA	0.16
P/FCFE (x)	NA	NA	NA	NA	NA
Net Gearing	(99%)	(103%)	(93%)	(51%)	(22%)
P/BV (x)	0.14	0.13	0.20	0.28	0.24
ROE	(49.9%)	(71.1%)	(65.3%)	(26.9%)	14.6%
% Change In Normalised EPS Estimates		(9.0%)	(0.4%)	(0.2%)	(23.9%)
Normalised EPS/consensus EPS (x)		6.68	5.48	2.86	1.69

SOURCE: CIMB, COMPANY REPORTS

Figure 1: Financial summary

GI Dynamics (GID)	AIFRS	AIFRS	AIFRS	AIFRS	AIFRS	Closing price (A\$)	0.8	Price target (A\$)	1.75	
Income statement (US\$m)						Valuation metrics				
Divisional sales	0.7	1.9	10.1	49.8	83.4	Preferred methodology	DCF, SOP	Valuation (A\$)	1.75	
Total revenue	0.7	1.9	10.1	49.8	83.4	Metric Valuation (A\$ per share) Blended				
EBITDA	-29.9	-37.5	-41.0	-15.4	7.3	DCF	1.62	AS\$0.81		
Associate income	0.8	0.0	0.0	0.0	0.0	SOP	1.88	AS\$0.94		
Depreciation	-0.1	-0.1	-0.1	-0.5	-0.5	Blended Equity Valuation				
EBITDA	-30.0	-37.6	-41.1	-15.9	6.8	AS\$1.75				
Amortisation/impairment	-0.1	-0.1	-0.1	-0.1	-0.1	Fair value				
EBIT	-30.1	-37.7	-41.2	-16.0	6.7	Multiples				
EBIT (incl associate profit)	-29.3	-37.7	-41.2	-16.0	6.7	Enterprise value (A\$m)	2013F	2014F	2015F	2016F
Net interest expense	0.7	1.5	2.2	2.0	0.8	226.3	233.6	265.6	277.0	
Pre-tax profit	-26.8	-36.2	-39.0	-14.0	7.5	EV/Sales (x)	122.0	126.0	26.2	5.6
Income tax expense	0.0	0.0	0.0	0.0	-0.4	EV/EBITDA (x)	-6.0	-5.7	-17.2	38.0
After-tax profit	-26.8	-36.2	-39.0	-14.0	7.1	EV/EBIT (x)	-6.0	-5.7	-16.6	41.5
NPAT	-26.8	-36.2	-39.0	-14.0	7.1	PE (pre-abnormal) (x)	-135.7	-126.7	-422.2	844.4
NPAT post abnormals	-26.8	-36.2	-39.0	-14.0	7.1	PEG (pre-abnormal) (x)	136.3	-1773.3	603.2	-563.0
Cash flow statement						At target price				
EBITDA	-29.9	-37.5	-41.0	-15.4	7.3	EV/EBITDA (x)	2013A	2014F	2015F	2016F
Change in working capital	-3.1	2.3	-6.5	-18.0	-18.6	-16.0	-16.0	-14.8	-41.6	89.5
Net interest (pd)/rec	0.7	1.5	2.2	2.0	0.8	PE (pre-abnormal) (x)	-312.1	-291.3	-970.8	1941.7
Taxes paid	0.0	0.0	0.0	0.0	-0.4	Per share data				
Other oper cash items	7.0	0.0	0.0	0.0	0.0	No. shares	2013F	2014F	2015F	2016F
Cash flow from ops (1)	-24.6	-33.7	-45.2	-31.4	-10.9	53.3	53.3	75.9	82.3	83.3
Capex (2)	-0.5	-0.1	-0.1	-0.6	-0.6	EPS	-0.56	-0.60	-0.18	0.09
Disposals/acquisitions	0.0	0.0	0.0	0.0	0.0	EPS (pre-abnormal)	-0.56	-0.60	-0.18	0.09
Other investing cash flow	0.0	0.0	0.0	0.0	0.0	Dividend per share (c)	0.0	0.0	0.0	0.0
Cash flow from invest (3)	-0.4	-0.1	-0.1	-0.6	-0.6	Dividend payout ratio (%)	0%	0%	0%	0%
Incr/(decr) in equity	0.4	54.6	38.0	0.0	0.0	Dividend yield (%)	0.0%	0.0%	0.0%	0.0%
Incr/(decr) in debt	0.0	0.0	0.0	0.0	0.0	Growth ratios				
Ordinary dividend paid	0.0	0.0	0.0	0.0	0.0	2013F	2014F	2015F	2016F	
Other financing cash flow	0.0	0.0	0.0	0.0	0.0	Sales growth	177.6%	447.2%	390.8%	67.5%
Cash flow from fin (5)	0.3	54.6	38.0	0.0	0.0	Operating cost growth	28.5%	30.0%	27.5%	16.7%
Forex and disc ops (6)	0.0	0.0	0.0	0.0	0.0	EBITDA growth	25.1%	9.4%	-137.6%	-147.2%
Incr/(decr) cash (1+3+5+6)	-24.7	20.8	-7.3	-32.0	-11.4	EBITDA margin (%)	25.0%	9.4%	-61.3%	-142.6%
Equity FCF (1+2)	-25.0	-33.8	-45.3	-32.0	-11.4	EBIT growth	25.0%	9.4%	-61.1%	-141.7%
Balance sheet						Operating performance				
Cash & deposits	41.5	62.3	55.0	23.0	11.6	2013F	2014F	2015F	2016F	
Trade debtors	0.5	1.3	6.5	32.1	53.7	Asset turnover (%)	0.8	3.6	16.1	21.6
Inventory	5.4	3.0	9.3	26.1	43.7	EBITDA margin (%)	-2020.6	-404.0	-30.9	8.7
Investments	0.0	0.0	0.0	0.0	0.0	EBIT margin (%)	-2031.4	-406.0	-32.2	8.0
Other intangible assets	0.0	0.0	0.0	0.0	0.0	Net profit margin (%)	-1951.4	-384.0	-28.2	8.5
Fixed assets	0.7	0.6	0.5	0.5	0.4	Return on net assets (%)	-62.6	-69.6	-35.5	12.8
Other assets	0.0	0.0	0.0	0.0	0.0	Net debt (A\$m)	-62.3	-54.9	-22.9	-11.5
Total assets	48.9	68.0	72.2	82.5	110.2	Net debt/equity (%)	-103.5	-92.8	-50.8	-22.0
Short-term borrowings	0.0	0.0	0.0	0.0	0.0	Net interest/EBIT cover (x)	25.4	18.5	8.1	-8.2
Trade payables	0.4	1.1	6.2	30.6	51.2	ROIC (%)	-6145.9	2356.3	-346.7	28.2
Long-term borrowings	0.1	0.1	0.1	0.1	0.1	Internal liquidity				
Provisions	0.0	0.0	0.0	0.0	0.0	2013F	2014F	2015F	2016F	
Other liabilities	0.0	0.0	0.0	0.0	0.0	Current ratio (x)	8.9	5.7	2.2	1.9
Total liabilities	7.2	7.9	13.0	37.3	58.0	Receivables turnover (x)	2.1	2.6	2.6	1.9
Share capital	157.9	212.5	250.5	250.5	250.5	Payables turnover (x)	50.8	13.9	3.5	1.9
Other reserves	0.0	0.0	0.0	0.0	0.0					
Retained earnings	-116.1	-152.3	-191.3	-205.3	-198.2					
Other equity	0.0	0.0	0.0	0.0	0.0					
Total equity	41.7	60.1	59.2	45.1	52.3					
Minority interest	0.0	0.0	0.0	0.0	0.0					
Total shareholders' equity	41.7	60.1	59.2	45.1	52.3					
Total liabilities & SE	48.9	68.0	72.2	82.5	110.2					

SOURCE: CIMB RESEARCH, COMPANY

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