Update

Edison investment research

6 November 2007

Maelor

Year End	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	PE (x)	Yield (%)
03/07**	2.8	(0.03)	(0.1)	0.0	N/A	N/A
03/08e	6.5	1.6	1.1	0.0	12.0	N/A
03/09e	8.7	2.2	1.4	0.0	9.5	N/A
03/10e	11.0	3.3	2.2	0.0	6.0	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.
**relates to former Maelor operations only.

Investment summary: Set for full-year profit

Having completed the integration of the Acorus business and kept a close eye on costs, Maelor has posted a net profit in its fiscal first half and is set to move into profit for the full year. It looks set to consolidate the growth of its in-house product portfolio through the addition of Aloxi, near-term new product launches and acquisitions.

Acorus integrated

Acorus, acquired for £13m in May 2007, has been integrated into the Maelor business ahead of schedule, positioning the combined company for sustainable profitability and growth.

Aloxi deal

The recent acquisition from Helsinn of UK rights to the nausea and vomiting drug Aloxi has indicated management's desire to expand the business quickly beyond the scope of the recently combined Acorus/Maelor pipeline. Targeted acquisitions of additional specialist sector products — and potentially other companies — should support growth of the in-house portfolio.

Volplex gains market share

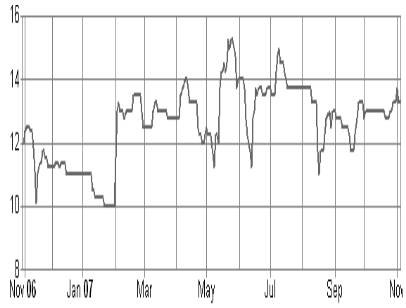
Maelor's interim turnover was driven by Volplex, whose market share rose from 16% to 26%, and we are continuing to forecast full-year net profitability for the company. The revenue impact of Aloxi should begin to be felt in fiscal 2008/2009, while the bottom line will benefit starting in 2009/2010 as Maelor initially invests in sales and marketing, and absorbs product launch costs.

Valuation: Still attractive

Based on the revised financials, we have updated the valuation model for Maelor, and this shows that the company still trades at a discount to speciality pharma industry averages, especially in terms of forward P/E ratio. Additional revenue not factored into our financial forecast could give rise to even more favourable multiples.

Price	13.3p
Market Cap	£16m

Share price graph



Share details

Code	MLR
Listing	AIM
Sector	Pharmaceuticals & Biotech
Shares in issue	124.3m

Price

	High	Low
52-week	15.25p	10.00p

Balance Sheet as at 30 Sept 2007

Debt/Equity (%)	N/A
NAV per share (p)	4.1
Net cash (£m)	1.7

Business

Maelor is a speciality pharmaceutical and medical devices company focused on the specialist hospital sector. It aims to grow through product and company acquisition.

Valuation

	2007	2008e	2009e
P/E relative	N/A	106%	87%
P/CF	N/A	10.9	8.3
EV/Sales	1.1	1.9	1.6
ROE	N/A	11%	15%

Revenues by geography

UK	Europe	US	Other
98%	2%	0%	0%

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Maelor is a research client of Edison Investment Research Limited

Investment summary: Set for full-year profit

Company description: Growing specialist hospital player

Maelor, a pharmaceutical and medical devices company targeting the specialist hospital sector, is making progress in pursuing its strategy to use targeted acquisitions to underpin organic growth of its portfolio. Within four months of completing the transforming acquisition of Acorus, the business has been integrated and the combined portfolio positioned for further growth. This has been boosted by the recently announced exclusive UK licence and distribution agreement covering the nausea and vomiting drug Aloxi (palonosetron) and the extension by Bard of its UK and Ireland distribution agreement on OptiFlo, a catheter-flushing product.

The key strategic products for Maelor are Mysoline, Volplex, Cryogesic and now Aloxi, which is to be launched in the UK in March 2008. The marketed products are shown in Exhibit 1.

Exhibit 1: Commercial products portfolio

Product	Indication	Notes
Mysoline (primidone)	Epilepsy and essential tremor.	European rights acquired from AstraZeneca. Development for essential tremor initiated, including work on new dosage regimens and formulations.
Volplex (succinylated gelatin solution)	Hypovolaemia (low blood volume) as a result of surgery or trauma.	Sold directly in UK with marketing under a revenue-sharing agreement with BioProducts Laboratories, a unit of the National Blood Service.
Cryogesic/ Dermogesic (ethyl chloride)	Fast-acting spray chill for anaesthetising skin for epidural, insertions of canulae etc.	Cryogesic is sold in an aerosol can and in a glass flask device. Dermogesic is a non-flammable version, which is CE marked and could be launched in H1 of 2008/2009.
OptiFlo (catheter flushing solutions)	Cleaning of indwelling urinary catheters.	Sold by CR Bard in the UK and Ireland, and by various other distributors overseas (as Contisol). The Bard distribution deal has just been extended.
Aloxi (palonosetron)	Chemotherapy-induced nausea and vomiting.	UK rights acquired from Helsinn in October 2007. Due to be launched by Maelor in March 2008.

Source: Edison Investment Research

Maelor also has five products in late stages of development, the most advanced of which could be launched within 12 months. The development projects are summarised in Exhibit 2.

Exhibit 2: Development products portfolio

Product	Indication	Development stage/notes
ISOplex (isotonic succinylated gelatin solution)	Hypovolaemia (low blood volume) in patients who require fluid replacement.	Plasma volume expander which is designed to mimic the electrolyte balance of natural plasma. Launch expected in H2 2008/2009.
Haemopressin (terlipressin)	Approved for the treatment of uncontrolled bleeding from oesophageal varices (caused by conditions such as cirrhosis).	Rights for UK and Ireland. The product is used more extensively off-label in the treatment of hepatorenal syndrome. Launch expected in 2008/2009. Market estimated at £5m in UK.
Acoranil (imipramine)	Liquid presentation of tricyclic antidepressant.	In registration, currently sold as a special. Launch expected in H2 2008/2009.
AquiHex (chlorhexidine)	Bacterial infections, including hospital-acquired infections.	Topical product for use in critical care setting, currently sold as a special. Launch expected in H1 2009/2010.
Gentispray (gentamicin plus hydrocortisone)	Novel otic spray formulation of antibiotic/steroid combination (as ear drops) for the treatment of otitis externa.	Late Phase III trials — a low-cost non-inferiority study.

Source: Edison Investment Research

Broadened product offering

Maelor's first half was again driven by sales of Volplex, its plasma replacement product, whose year-on-year revenues rose by 72% and market share climbed from 16% to 26%. The integration of Acorus also had a significant impact. Future growth is to benefit from expansion of the current product portfolio, new product launches (including Aloxi) and continued cost containment. Through the Acorus portfolio Maelor has established a network of distributors in Europe, South America and South Africa.

Product acquisition

Under a deal signed in October 2007 with Helsinn, a Swiss pharmaceutical company, Maelor acquired exclusive UK licence and distribution rights to Aloxi. The drug is indicated for treating chemotherapy-induced nausea and vomiting (CINV), and became Maelor's first oncology-related product aimed at the specialist hospital market.

Aloxi has been marketed since 2003 by MGI Pharma in the US, where last year it posted revenues of $250.7m — around 78% of the product's global sales. It was approved in Europe two years ago, and the current UK licensee, Cambridge Laboratories, is handing rights back to Helsinn. Maelor intends to launch Aloxi in the UK in March 2008.

Maelor plans to price Aloxi (palonosetron) at a premium to the two established CINV drugs, ondansetron (GSK's Zofran and generics) and granisetron (Roche's Kytril), on the basis of its longer half-life and receptor binding, and will promote it under the slogan "starts strong, lasts long". Aloxi is a second-generation 5HT3-antagonist and has several years of patent protection remaining. Maelor will buy finished product from Helsinn for sale in the UK.

At 10% market penetration Aloxi could achieve UK sales of £3–5m — a material amount for Maelor. We are forecasting a modest top-line impact initially, with four years before Aloxi sales peak, accompanied by increased operating spending in H2 of the current year and fiscal 2008/2009 as Maelor sets up a sales presence (the hiring of a few reps is planned) and absorbs launch costs.

Maelor also has rights to the use of Aloxi in the additional indication of post-operative nausea and vomiting, as well as an oral formulation of the product (currently available only as an iv infusion).

The company has separately indicated its intention to continue bolstering sales of its in-house portfolio with targeted acquisitions of additional specialist sector products — and potentially other businesses.

Bard deal extended

In the UK and Ireland the catheter-flushing solution OptiFlo has been sold by Bard since its launch, and this distribution agreement has just been renewed for a further five years. OptiFlo is significant in terms of revenue but, because it is used in primary care, it lies outside Maelor's strategic focus on specialists and is therefore commercialised through distributors.

Bard will focus on growing its market share as well as the overall market for urinary catheter maintenance products, and aims to continue education and support campaigns targeting community healthcare professionals. The distribution agreement with Maelor will continue broadly unchanged, with Bard buying finished product from Maelor and the companies sharing profits.

Outside the UK and Ireland the product is known as Contisol, although catheter flushing is far less frequently performed, in favour of catheter replacement. Accordingly Maelor does not expect the product to generate significant revenue in the rest of the world, although if there is sufficient interest further distribution deals could be signed.

Meanwhile, progress continues to be made on another project in Maelor's non-core portfolio, its micelle nanotechnology. This is licensed to Plethora Solutions, which recently announced positive Phase II data with PSD597, its lidocaine formulation for the potential treatment of interstitial cystitis. Plethora has outlined the possibility of using the Maelor technology to develop a novel formulation of PSD597, thus extending its patent life.

Significant news flow

Investors can expect significant news flow from Maelor over the medium term. By the end of the current fiscal year, the company expects to launch Aloxi, and during 2008/2009 it could then see the market introductions of ISOplex and Haemopressin, as well as Acoranil and Dermogesic, the non-flammable version of Cryogesic.

Valuation: Still attractive

In our Outlook note in May 2007 we described in detail the possible scenarios used to calculate a realistic range for Maelor's valuation. After revising financial forecasts, we are presenting a summary of the valuation metrics based on the mid-case scenario discussed earlier, and this shows that Maelor still trades at a discount to speciality pharma industry averages, especially in terms of forward P/E ratio.

Maelor's valuation is complicated by the fact that determining its enterprise value depends on how a £5m contingent loan, issued as part of the consideration under the Acorus takeover, is treated. This is a loan whose repayment will become due in five yearly £1m tranches if the acquired Acorus range of products reaches certain predefined cumulative sales targets.

We had previously stated that this loan can be treated as either £5m of debt (assuming it is paid off in full, with interest) or as debt adjusted to its net present value (£3.6m), or excluded from the balance sheet (i.e. assuming the targets are not reached and the loan does not have to be paid off). Exhibit 3 shows the valuation metrics considering the mid-case scenario (i.e. assuming the debt is paid off but discounting it to its NPV), and using the updated financial forecasts.

It should be noted that additional revenue not factored into our financial forecast — such as possible milestone payments under the micelle technology deal with Plethora or potential future product acquisitions — could give rise to even more favourable multiples.

Exhibit 3: Selected valuation metrics for Maelor

Note: The contingent loan scenario treats the loan as debt, but adjusts it to its NPV (£3.6m)

Financial year to March 31	2008e	2009e	2010e
PE	12.0	9.5	6.0
Price/Cash Flow	10.9	8.3	5.4
Price/Book	1.5	1.3	1.1
Contingent loan scenario (EV=£17.9m)			
EV/Sales	2.8	2.1	1.7
EV/EBITDA	11.9	8.4	5.6
EV/EBIT	13.8	9.3	6.0

Source: Edison Investment Research

Interim financials

Maelor's financials for the first half ended 30 September showed revenues rising from £1.3m to £3.1m, with gross margin improvement to 57% (46% a year earlier) helping the bottom line. Turnover was driven by Volplex sales, up by 72% year on year on the back of market share rising from 16% to 26%. The first half was profitable, and we are continuing to forecast full-year net profitability for Maelor.

We have slightly increased our full-year turnover forecast to reflect strong Volplex sales, and reduced cost of sales in line with the improved gross margin, which management says is sustainable. The impact of Aloxi should begin to be felt in fiscal 2008/2009, with initial modest sales building up to reach a conservative £3m in 2009/2010. The bottom-line impact will not be felt initially as Maelor invests in sales and marketing, but should be visible by 2009/2010.

We are excluding the possible impact of milestone fees from Plethora, which will be payable if its interstitial cystitis project PSD597 is formulated in Maelor's micelle technology and enters a clinical study.

Exhibit 4: Maelor financials and forecasts

Note: Results from 2008 will be presented under IFRS. Results for 2006 and 2007 are shown under UK GAAP (not restated).

£'000s	2006	2007	2008e	2009e	2010e
Year ending Mar 31					
PROFIT & LOSS					
Revenue	1,859	2,842	6,500	8,700	10,950
Cost of Sales	(1,118)	(1,486)	(2,805)	(3,711)	(4,744)
Gross Profit	741	1,356	3,695	4,989	6,207
EBITDA	(498)	(53)	1,541	2,177	3,247
Operating Profit (before GW and except.)	(515)	(73)	1,521	2,157	3,227
Goodwill Amortisation	0	0	0	0	0
Exceptionals	(93)	0	(200)	(200)	(200)
Other	0	0	0	0	0
Operating Profit	(609)	(73)	1,321	1,957	3,027
Net Interest	38	40	55	75	100
Profit Before Tax (norm)	(477)	(33)	1,577	2,232	3,327
Profit Before Tax (FRS 3)	(570)	(33)	1,377	2,032	3,127
Tax	(90)	0	(369)	(461)	(603)
Profit After Tax (norm)	(567)	(33)	1,207	1,771	2,724
Profit After Tax (FRS3)	(661)	(33)	1,007	1,571	2,524
Average Number of Shares Outstanding (m)	34.3	34.3	109.3	124.3	124.3
EPS - normalised (p)	(1.7)	(0.1)	1.1	1.4	2.2
EPS - FRS 3 (p)	(1.9)	(0.1)	0.9	1.3	2.0
Gross Margin (%)	39.9%	47.7%	56.8%	57.3%	56.7%
EBITDA Margin (%)	(26.8%)	(1.9%)	23.7%	25.0%	29.7%
Operating Margin (before GW and except.) (%)	(27.7%)	(2.6%)	23.4%	24.8%	29.5%
BALANCE SHEET					
Fixed Assets	383	67	13,542	14,045	14,648
Intangible Assets	0	0	13,345	13,618	13,891
Tangible Assets	383	67	197	427	757
Investment in associates	0	0	0	0	0
Unquoted investments	0	0	0	0	0
Current Assets	1,881	2,175	3,955	4,864	6,637
Stocks	206	150	343	460	579
Debtors	355	573	1,310	1,754	2,208
Cash	1,296	1,427	2,276	2,625	3,826
Other	24	25	25	25	25
Current Liabilities	(697)	(867)	(1,619)	(2,162)	(2,717)
Creditors	(511)	(701)	(1,603)	(2,146)	(2,701)
Other creditors	(166)	(166)	(16)	(16)	(16)
Short term borrowings	(20)	0	0	0	0
Minority interests	0	0	0	0	0
Long Term Liabilities	(174)	0	(5,345)	(4,643)	(3,941)
Long term borrowings	(173)	0	0	0	0
Other long term liabilities	(1)	0	(5,345)	(4,643)	(3,941)
Net Assets	1,394	1,376	10,533	12,104	14,628
CASH FLOW					
Operating Cash Flow	(301)	(14)	1,313	1,960	3,029
Net Interest	38	40	55	75	100
Tax	108	0	(369)	(461)	(603)
Capex	(16)	(15)	(150)	(250)	(350)
Acquisitions/disposals	1	312	(8,000)	(975)	(975)
Financing	(2)	(193)	8,000	0	0
Dividends	0	0	0	0	0
Other	0	0	0	0	0
Net Cash Flow	(171)	131	849	349	1,201
Opening net debt/(cash)	(1,256)	(1,104)	(1,427)	(2,276)	(2,625)
HP finance leases initiated	(19)	193	0	0	0
Other	39	0	0	0	0
Closing net debt/(cash)	(1,104)	(1,427)	(2,276)	(2,625)	(3,826)

Source: Edison Investment Research