



Market data

EPIC/TKR	SPH
Price (p)	32.5
12m High (p)	41.0
12m Low (p)	26.0
Shares (m)	502.1
Mkt Cap (£m)	163.2
EV (£m)	146.4
Free Float*	56%
Market	AIM

*As defined by AIM Rule 26

Description

Sinclair operates in the aesthetics market with a focused portfolio of products targeting unmet clinical need for natural looking and minimally-invasive treatments. It sells directly in Europe and Brazil and uses distributors in other markets, including the US.

Company information

CEO	Chris Spooner
CFO	Alan Olby
Chairman	Grahame Cook

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www.sinclairpharma.com

Key shareholders

Directors	2.3%
Toscafund	27.4%
Lansdowne Partners	11.9%
Abingworth LLP	5.9%
Fidelity	5.4%
Schroders	5.8%

Diary

May-17	AGM
Jly-17	1H trading statement
Sep-17	Interims

Analysts

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Sinclair Pharma

Much more streamlined

During 2016, Sinclair has been transformed into a streamlined pure-play aesthetics company with a concentrated, highly competitive, portfolio of differentiated injectable products. Effective, longer-lasting, natural looking, minimally invasive treatments are benefiting from the trend away from intensive and invasive plastic surgery and represent a major growth opportunity. Products are sold directly in Europe and Brazil and via distributors in the rest of the world. Strong underlying growth is being boosted by selective product launches, including Silhouette InstaLift in the US where forecasts are based on very conservative projections.

- ▶ **2016 results:** Underlying sales grew by +37% to £37.8m (£25.0m *pro-forma*), boosted at the reported level by sterling weakness. EBITDA is trending rapidly towards breakeven, at -£0.8m (-£7.5m), excluding the US launch investment of -£5.3m, supporting the goal to become EBITDA positive in 2017.
- ▶ **Products:** An exceptional performance by Ellansé (+69%) was closely followed by Silhouette Soft (+47%) and Perfectha (+30%). Underlying growth will be boosted by further launches in big aesthetic markets in each of the next three years. Early US physician interest in InstaLift validates this large opportunity.
- ▶ **Net cash/(debt):** Sinclair ended the year debt free and with £16.8m cash. 2017 will be another year of marketing investment and, despite further payments of deferred consideration, the group will end the year with net cash of ca.£3m. However, SPH has agreed a £10m debt facility to maximise financial flexibility.
- ▶ **Changes to forecasts:** Excellent financial transparency and improved information about the geographical origin of sales has led to a modest (+1%) increase in our 2017 CER sales forecast to £49.0m (was £48.7m). Input of actual 2016 costs had a very small (-£0.1m) knock-on effect on our EBITDA forecast.
- ▶ **Investment summary:** Initial market reaction to Sinclair's 2016 results was somewhat subdued given the tremendous success in streamlining the business last year. Even on very conservative expectations for Silhouette InstaLift sales in the US, the company looks set to deliver an EBITDA profit in 2017 and overall profitability in 2018. The risk/reward profile is extremely favourable and this should be reflected in share price appreciation.

Financial summary and valuation

Year end Dec (£m)	2015	2016	2017E	2018E	2019E
Sales	25.0	37.8	49.0	64.0	80.0
Gross profit	17.1	26.7	36.3	48.0	61.2
EBITDA	-7.5	-6.1	2.0	11.3	22.5
Underlying EBIT	-12.4	-11.5	-3.0	6.4	17.6
Reported EBIT	-13.7	-6.8	-5.0	4.4	15.6
Underlying PTP	-28.3	-16.3	-6.4	3.0	15.2
Underlying EPS (p)	-5.5	-3.2	-1.1	0.7	2.5
Statutory EPS (p)	-5.8	-2.2	-1.5	0.3	2.1
Net (debt)/cash	75.4	16.8	2.7	-0.1	-0.1
P/E (x)	-	-	-	-	13.1
EV/sales (x)	5.9	3.9	3.0	2.3	1.8
EV/EBITDA (x)	-	-	-	13.0	6.5

Source: Hardman & Co Life Sciences Research

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Throughout this report, use of the word 'InstaLift' is a reference to Silhouette InstaLift® which is the registered brand name used by Sinclair in the US market

Changes to forecasts

- ▶ Transparency, coupled with a better understanding of the geographical location of sales, has resulted in a +1% increase to our group sales forecast for 2017
- ▶ Changes to EBITDA forecasts simply reflect the knock-on effect of inputting actual 2016 numbers for the cost lines in the P&L account
- ▶ At this early stage of the year all forecasts are based on constant currency to show organic growth. In the event that the key currencies stay around current levels (GBP:USD 1.25; GBP:EUR 1.16; GBP:SKW 1,400), sales would increase +£2.5m (+5%) to £51.5m, but costs would also rise by ca.£2.0m.

Changes to forecasts				
Year end Dec (£m)	2016	2017E	2018E	2019E
Group sales				
Old	37.82	47.8	61.5	76.9
New		49.0	64.0	80.0
Change		+1%	+4%	+4%
EBITDA				
Old	-6.13	2.1	11.5	22.1
New		2.0	11.3	22.5
Change		-4%	-2%	+2%

Source: Hardman & Co Life Sciences Research

FY 2016 results

*Results for the full year to
December 2016 set the benchmark
going forward*

2016 was a year of significant change for Sinclair Pharma. Disposal of its low growth non-core pharmaceutical business has left the company with a concentrated portfolio of high growth, differentiated, aesthetics products and a strong balance sheet. The company also changed its accounting period to end of December bringing it into line with industry peers. Therefore, these accounts set the benchmark for a transformed Sinclair going forward. The company had already reported product sales ahead of market expectations in its trading statement back in January, so this report is looking more at the company's progress towards profitability, expected in 2017 (EBITDA level) and 2018 (EBIT level).

Key headlines

- ▶ Sales were reported to the market in January, with underlying growth of +37% to £37.8m (£25.0m *pro forma*)
- ▶ The gross margin increased 2.4pp to 70.7% due to increased sales from higher margin products and a greater level of direct sales, although it was very modestly below our forecast
- ▶ Investment in sales and marketing, together with training in the run-up to the US launch of InstaLift, resulted in total SG&A rising +53% to -£38.4m. However, this was lower than forecast and more than offset the increase in COGS
- ▶ There was a positive trend in EBITDA, falling from -£7.5m to -£6.1m. Moreover, excluding the US investment in InstaLift, the EBITDA loss was just -£0.8m. EBITDA will be a key financial measure in 2017 when it is forecast to turn positive
- ▶ The actual cash position of +£16.8m was declared in the January trading statement. Continued investment in marketing, new production lines in the out-sourced manufacturing facilities, payment of deferred considerations, and the first warranty instalment (see below) will leave Sinclair with forecast net cash of ca.£3m at the end of fiscal 2017

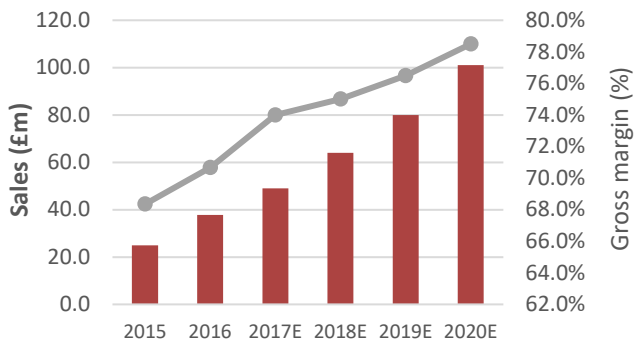
Sinclair 2016 – actual vs expectations				
Year to December (£m)	2015 actual	2016 actual	2016 forecast	Delta
Sales	25.0	37.8	-	-
Gross profit	17.1	26.7	27.0	-0.3
Gross margin	68.3%	70.7%	71.4%	-0.7pp
SG&A	-25.1	-38.4	-39.3	+0.9
EBITDA	-7.5	-6.1	-6.5	-0.4
Underlying EBIT	-12.4	-11.5	-12.0	+0.5
Pre-tax profit	-28.3	-16.3	-17.5	+1.2
EPS (p)	-5.5	-3.2	-3.3	+0.1
Net cash/(debt)	75.4	16.8	-	-

Source: Sinclair Pharma; Hardman & Co Life Sciences Research

Post-period events

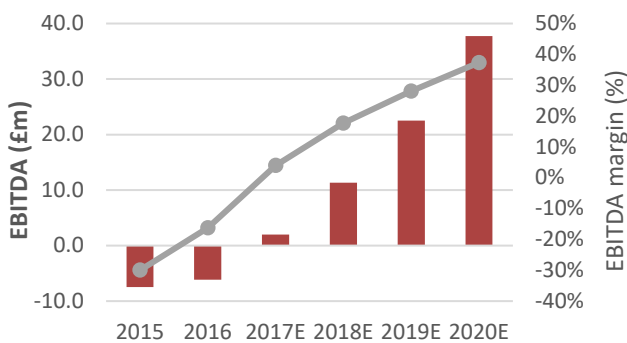
Subsequent to the period end, Sinclair settled a warranty claim for £5.0m in relation to the unexpectedly poor performance of Kelo-Stretch following its disposal as part of the non-core pharmaceuticals business to Alliance Pharma at the end of 2015. Cash outflow in relation to this will be -£4m in 2017 and -£1m in 2018. Management also indicated in the statement, and at the analyst meeting, that trading during 1Q 2017 has been in-line with expectations.

Sales & Gross margin



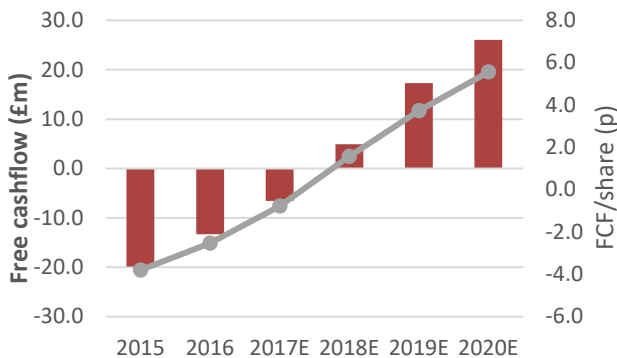
- ▶ Sales growth is being driven by the Silhouette product line (US and internationally), and Ellansé in new markets
- ▶ Forecasts for InstaLift in the US are very conservative – trained physicians treat only 15 patients a year – suggesting significant upside potential to forecasts
- ▶ Group sales are still forecast to grow more than 30% CAGR over the next 5 years
- ▶ Gross margin is now over 70% and trending towards 80% reflecting increased sales of high margin products

EBITDA/EBITDA margin



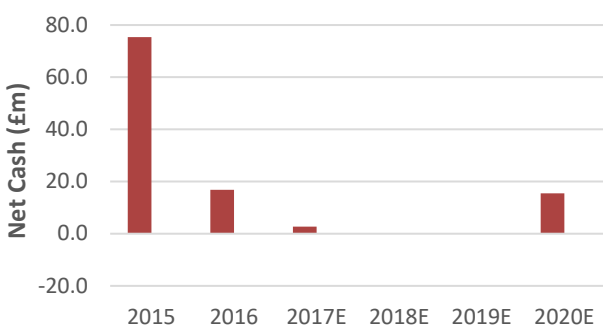
- ▶ Sinclair is already operating close to EBITDA breakeven and is forecast to be EBITDA positive during fiscal 2017
- ▶ Based on our sales assumptions, an EBITDA margin of ca.28% is achievable in 2019
- ▶ Medium/long-term EBITDA margin potential in excess of 40%
- ▶ Upside potential when actual outcomes for Silhouette InstaLift in the US are known

Free cashflow



- ▶ Despite the investment in growth, the cash burn in 2016 was about £1m lower than forecast
- ▶ Cashflow forecasts are conservative and very sensitive to the leverage effect of sales with future changes more likely to be in an upward direction
- ▶ Projections include substantial milestones due on Silhouette and Perfectha – ca.£5.4m in 2017, £8.0m in 2018 and £17.5m in 2019

Net cash/(debt)



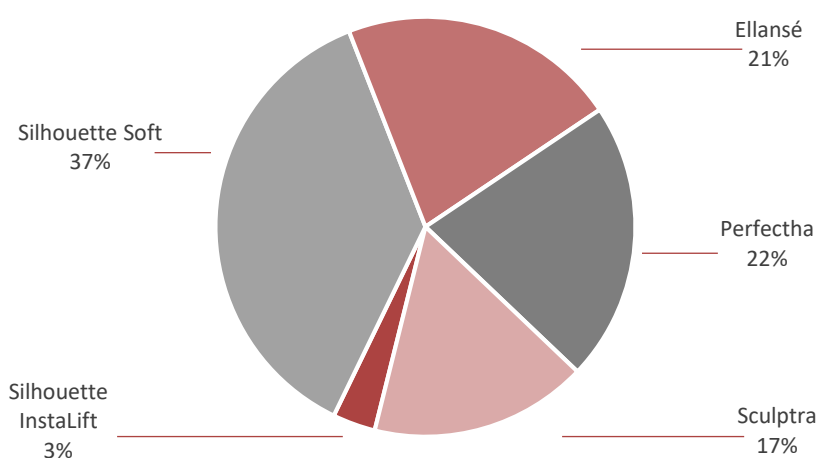
- ▶ Net cash at 31st December 2016 was £16.8m
- ▶ This position was arrived at after paying the discounted Aqtis milestone payment of €15m and Silhouette milestones of around \$30m
- ▶ The group's future cash position is affected by deferred considerations/milestone payments in 2018 and 2019
- ▶ Forecasts reflect the likely drawdown of a new £10m debt facility in two tranches during 2017/18

Source: Company data; Hardman & Co Life Sciences Research

Product update

Sinclair now has a focused aesthetics business consisting of just four differentiated brands. Sinclair owns the global rights to Silhouette, Ellansé and Perfectha; whereas Sculptra is in-licensed from Galderma and the company only has commercial rights for Western Europe. Strong underlying sales growth was boosted by a number of territory launches during 2016, with the roll-out continuing in each of the next three years following appropriate regulatory approvals. Sales were also boosted by the establishment of an affiliate, direct sales operation in Brazil, in July 2016.

Sinclair product portfolio 2016



2016 Group sales: £37.8m

Source: Sinclair Pharma; Hardman & Co Life Sciences Research

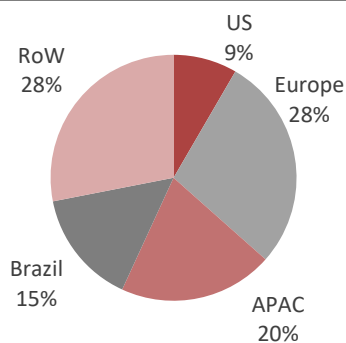
Silhouette

Silhouette is Sinclair's leading product with total sales of £15.3m (£9.3m) in 2016, representing 40% of the group total. It is a non-surgical, minimally invasive treatment made from polylactic acid (PLA), a well-known polymer used in a number of pharmaceutical applications, to lift the skin. It is applied as a suture to provide a scaffold under the surface of the skin to lift sagging soft tissues. In the US, Silhouette was launched in 2016 as InstaLift; whereas it is branded as Soft in all other markets.

Key features

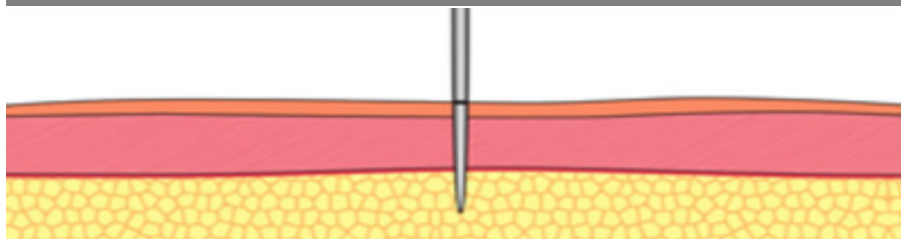
- ▶ Bespoke differentiated product compared to the more commoditised aesthetic procedures such as botox and hyaluronic acid facial fillers
- ▶ Applied to different parts of the face for different indications compared to the more commoditised products, resulting in better clinical outcomes
- ▶ Largely non-invasive, non-surgical, procedure that takes about one hour, benefiting from the trend away from plastic surgery (e.g. breast implantation) which involves more intensive and invasive procedures,
- ▶ Outside the US, the procedure usually involves 4-6 sutures, whereas in the US physicians are being trained to use at least six sutures per patient
- ▶ Pricing is fairly uniform around the world at \$150 per suture (to the physicians) – although the pricing trend is SE Asia > United States > Europe

Silhouette sales distribution

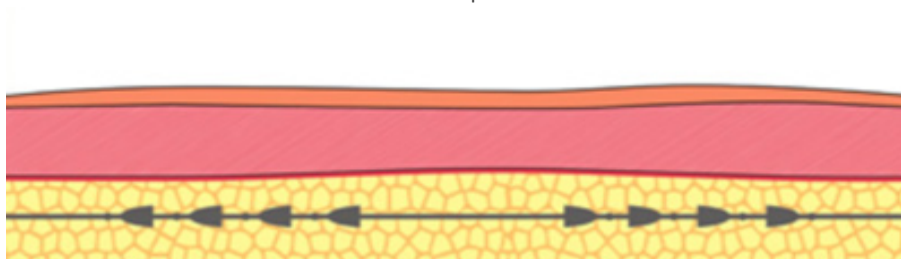


Source: Sinclair Pharma

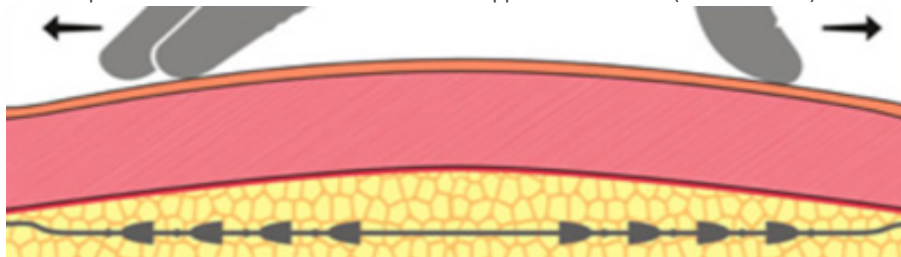
Silhouette – The treatment



1. After local anaesthetic, the doctor inserts the suture under the skin to a depth of about 5mm



2. No incision required, the suture being inserted using a fine needle and held in place with resorbable cones oriented in opposite directions (bi-directional)



3. Once the suture has been applied, the doctor performs slight compression of the tissue to reshape it and to obtain the desired lifting effect.

More than one suture may be applied, depending on the patient and treated area

Source: Sinclair Pharma

Silhouette Soft

Silhouette is a widely used product reflected in the broad geographical distribution of sales. Europe is currently the largest territory, although this is biased by being mostly a 'direct' sales area with the group retaining 100% of net sales and gross margin. In contrast, sales in the Asia Pacific (APAC) region and much of rest of the world are through distributors, with a lower effective ex-factory selling price.

However, the geographical spread of the Silhouette business is in a period of change and is forecast to look quite different in about two years' time. First, Sinclair established an affiliate in Brazil, the world's 2nd largest market for injectable aesthetic procedures, and bought back the distribution rights for Silhouette Soft (and Perfectha). The sales figure in 2016 (£2.3m; 15% of total) includes only one-half year of affiliate sales and on the back of some ex-distributor de-stocking; 2017 will be for a full year, coupled with an enlarged and well-trained Sinclair sales force.

Silhouette InstaLift

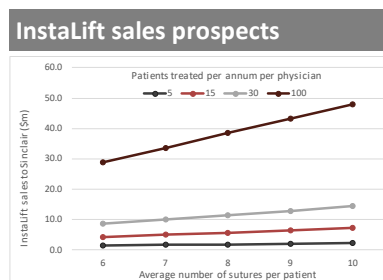
Secondly, Sinclair signed an exclusive four year distribution and strategic marketing agreement with ThermiGen, an Almirall SA company, for Silhouette InstaLift in the US. This gives Sinclair immediate access to the largest aesthetics market in the world via a highly successful and well established sales force. Early sales to ThermiGen in the latter part of 2016 exceeded expectations at \$1.7m/£1.3m, albeit with some pipeline filling.

Demand for physician training is very high...

...due to clinical outcomes coupled with strong economics

By the end of the year, ThermiGen had trained over 300 physicians and the plan is to increase this by a further 1,000 during 2017. Management indicated that there has been high demand from physicians wanting to register for training programmes during 1Q 2017, which augurs very well for future prospects. Once the physician has been trained, there is a confidence building period over the first few procedures with ThermiGen staff in attendance, after which physicians receive a more 'regular' service.

- ▶ >300 physicians at year end, rising to ca.1,300 by end 2017
- ▶ Good re-order rates being seen from physicians trained early on
- ▶ Number of sutures being applied in US (6-10) is higher than the number used in the rest of world (range 4-6)
- ▶ Good economics for physicians – patient cost for one hour procedure is in the range \$4,000-5,000, versus \$900-1,500 physician cost of 6-10 Instalift sutures
- ▶ Highly differentiated product with superior clinical results compared to those available from the oligopoly in the US of Allergan and Galderma (Nestlé)



Source: Hardman & Co Life Sciences Research

At this stage, forecasting sales of InstaLift is very difficult. Therefore, to give readers a guide about the US opportunity, the following matrix has been constructed. The number of patients represents the average number treated by each trained physician in a year – range shown is conservative at 5-100. Using an average number of sutures applied per patient – procedures use pairs of sutures in the range 6 to 10 (i.e. 3-5 pairs) – gives the total number of sutures to be bought. This generates the in-market sales potential which, in turn, provides the income to Sinclair – 40% of ThermiGen's sales.

Potential for InstaLift

		# Patients treated p.a. per physician						
		5	10	15	20	30	50	100
Average # sutures	6	24,000	48,000	72,000	96,000	144,000	240,000	480,000
	7	28,000	56,000	84,000	112,000	168,000	280,000	560,000
	8	32,000	64,000	96,000	128,000	192,000	320,000	640,000
	9	36,000	72,000	108,000	144,000	216,000	360,000	720,000
	10	40,000	80,000	120,000	160,000	240,000	400,000	800,000
		Instalift sales to Sinclair (\$m)						
Average # sutures	6	1.4	2.9	4.3	5.8	8.6	14.4	28.8
	7	1.7	3.4	5.0	6.7	10.1	16.8	33.6
	8	1.9	3.8	5.8	7.7	11.5	19.2	38.4
	9	2.2	4.3	6.5	8.6	13.0	21.6	43.2
	10	2.4	4.8	7.2	9.6	14.4	24.0	48.0

Source: Hardman & Co Life Sciences Research

An average of 800 trained physicians...

...each treating an average of 15 patients in 2017...

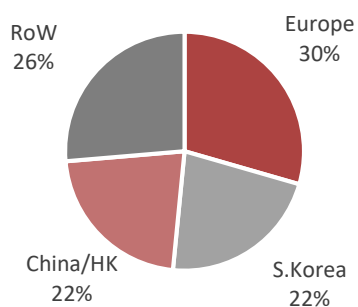
...with an average of 7 sutures (3-4 pairs)...

...equates to our sales forecast of \$5.0m

Our current forecast for 2017 is \$5m/£3.7m. This is based on the average number of trained physicians (800) each treating 15 patients during the year with an average number of seven sutures per patient (range 6-10; i.e 3-5 pairs). Given that the economics of the procedure are so attractive to the physicians, this forecast is considered to be extremely conservative. However, at this point in time, it is best to remain conservative with a view to upgrading when more information becomes available later in the year, with the next update due to be provided in a trading statement for the interim period (July 2017).

Ellansé

Ellansé sales distribution



Source: Sinclair Pharma

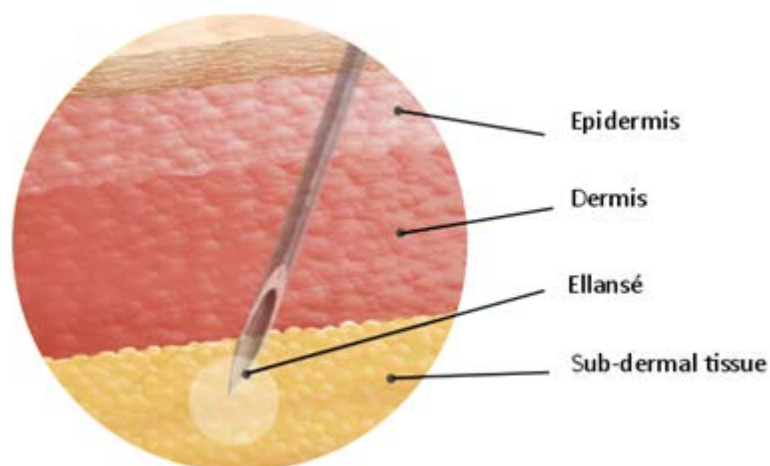
Prospects for Ellansé will be boosted even further when launched in the three largest aesthetics markets

Ellansé was the star performer in terms of growth, with sales rising +69% (CER) to £8.1m in 2016 to become Sinclair's #2 product. Sales benefited from this product being launched in a number of countries during the year. Again, use of Ellansé is across a wide geographical area, but the biggest single market is South Korea, which represented 22% of sales at £1.8m (+40%). Sales in Hong Kong/Taiwan were similar and growth was strong in this naturally buoyant market. Direct operations in Europe performed well, contributing to 33% CER growth, with a particularly impressive outcome in Spain.

The outlook for Ellansé is extremely positive. Not only is the product performing well in markets where it is currently available, but also from the fact that it has not been launched yet in the three biggest aesthetics markets in the world. Forecast underlying growth of ca.30% in 2017 and 2018 is expected to be boosted by launches of Ellansé in Brazil (1H 2018), followed by the US and China in late 2019.

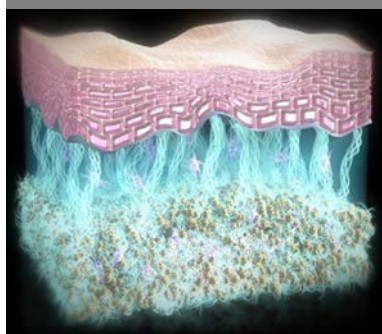
Ellansé is a new generation and innovative dermal filler with a 2-in-1 action that provides immediate correction of wrinkles and folds, stimulates the long-lasting generation of the body's own natural collagen to give a fresh, youthful look, resulting in both immediate and long-term improved clinical outcomes.

Ellansé – The treatment



Source: Sinclair Pharma

Ellansé



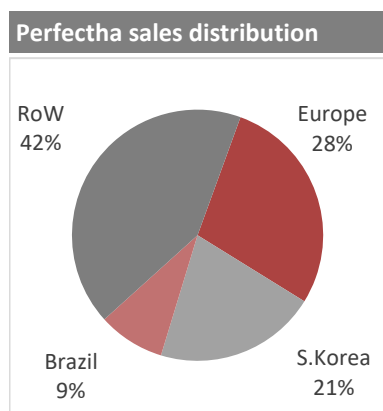
Source: Sinclair Pharma

Ellansé is a combination of 30% polycaprolactone (PCL) microspheres with a 70% carboxymethyl-cellulose (CMC) gel vehicle that is injected straight into the sub-dermis. Its cohesiveness makes it easy to shape and mould, enabling the physician to obtain high precision in shaping the target areas of treatment to give the desired outcomes.

Competitive advantages

- ▶ Unique as a volume restorer
- ▶ Provides immediate and long lasting results
- ▶ Virtually no degradation in volumisation
- ▶ Better clinical outcomes

Perfectha



Source: Sinclair Pharma

Perfectha is an advanced hyaluronic acid gel dermal filler, cross-linked by E-brid® technology, developed to fill out wrinkles, hydrate the skin and add volume. Despite reporting underlying growth of +30% in fiscal 2016, Perfectha moved from #2 to #3 in Sinclair's portfolio, such was the exceptional performance of Ellansé.

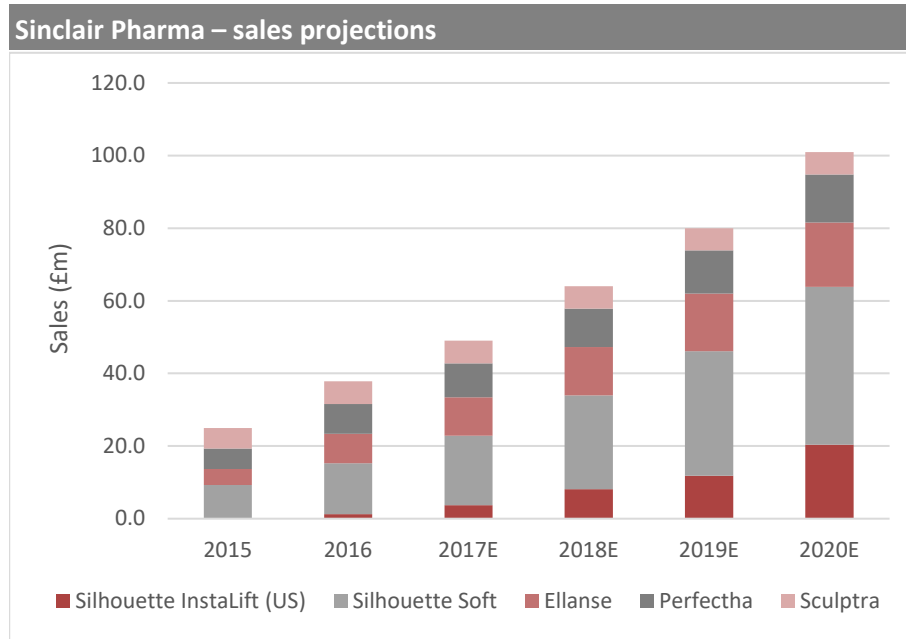
Growth in Perfectha was driven by a recovery in sales in South Korea following a period of de-stocking in 2015. However, reported sales growth of +123% compares with in-market growth of about +5%. Products based on hyaluronic acid (HA) are relatively common in this region, creating a competitive market place. Even though Perfectha represents the latest generation of HA products, it is unlikely to achieve growth that is significantly different from in-market growth.

A good performance was also seen in direct sales territories in Europe, notably Spain. The exception in Europe was the performance in Russia, where sales fell -40%, although management indicated that this situation had stabilised in the final quarter of the year.

For 2017, solid growth is anticipated in the direct sales territories in Europe and Brazil, boosted by re-launch of the product in the Nordic region and first launch at the end of 2016 in Mexico. Our forecasts assume CER growth of +15% to £9.3m.

Sculptra

Sculptra is a mature product in the portfolio for which little or no growth is forecast. In line with this, underlying sales grew +2% in 2016. Sinclair has the rights to this product only for Western Europe, which provided a significant currency benefit – estimated at £0.6m – on translation. Forecasts for 2017 assume CER growth of -1% to £6.2m.

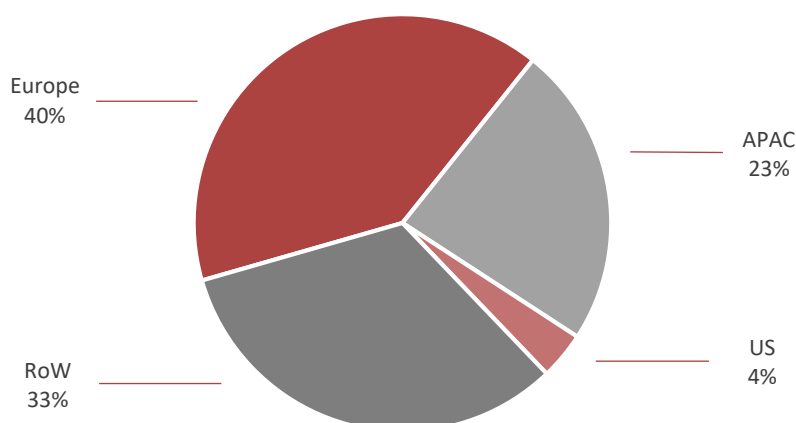


Source: Hardman & Co Life Sciences Research

Geographical analysis

In the accounts, Sinclair discloses sales by destination of products and, while this is not quite the same as sales by invoicing, it does provide a useful insight into likely currency sensitivity. All forecasts are based on the actual exchange rates for 2016.

Sinclair Pharma – 2016 sales by destination



Source: Sinclair Pharma

Sinclair sells its products to practitioners (physicians, aesthetic clinics etc.) either directly or through a distributor. The practitioners and distributors receive a portion of the end price charged to the ultimate consumer.

Good start in the second largest aesthetics market...

...that will be helped by the larger and well-trained direct sales force...

...with the upcoming launch of Ellansé

Our sales matrix (page 7) clearly demonstrates the upside potential to sales forecasts for the US

Brazil

Early signs of the positive impact of creating an affiliate in Brazil and regaining product distribution rights were evident in the 2016 numbers. Results in 2017 look set to be strong for a number of reasons:

- ▶ 2017 will benefit from having a full year's contribution from the affiliate, versus about half a year in 2016
- ▶ De-stocking by the previous wholesaler during 2016 will no longer have an impact on sales
- ▶ Investment in training and expanding the salesforce is expected to benefit sales in 2017
- ▶ Full year impact from re-launch of Perfectha

This bodes well, and will be in good time for training ahead of the planned launch of Ellansé in 1H 2018 – the regulatory submission is anticipated later in 1H'17.

United States

As stated earlier, 2017 should provide a much clearer indication of the sales traction achievable by ThermiGen for Silhouette InstaLift. Key to a successful product launch is physician training, which is being conducted through hands-on training sessions provided by a third-party continuous medical education (CME) provider. The target is to have 1,300 physicians trained by the end of 2017 and demand for the courses suggests that Sinclair/ThermiGen is well on course to achieve this target.

Mexico

Sinclair also contracted with a new distribution partner, Farmapiel, in Mexico during 2016. This resulted in the successful re-launch of Ellansé in May. Farmapiel also has the rights to other products in the Sinclair portfolio and it is anticipated that this will also result in successful launches of Silhouette Soft and Perfectha during 2017.

Europe

Markets in Europe are important to the group not only because there is solid demand for aesthetic products but also because several countries are where Sinclair make direct sales and, therefore, retains 100% of the net sales and gross margin. Europe represented 40% of sales in 2016 and, given that management has been investing in increased training and marketing support, we anticipate that Europe will continue to be an important contributor in the future. Given that physician training is at a more advanced stage in Europe and with greater brand recognition, Sinclair is augmenting marketing investment with a programme of Direct-to-Consumer (DTC) advertising.

Upcoming product launches

Detailed below is the timetable for entry/re-entry into selected geographical markets for Sinclair's principle products, which is expected to boost the strong underlying growth rates of the top three brands.

Sinclair – Geographical development					
Product	Country	2016	2017	2018	2019
Silhouette	US (InstaLift)	✓			
	Mexico	✓			
	Iran		✓		
	Taiwan		✓		
	Argentina			✓	
	China				✓
Ellansé	Australia/Far East	✓			
	Mexico	✓*			
	Columbia		✓		
	Brazil			✓	
	Argentina			✓	
	US				✓
	China				✓
Perfectha	Mexico	✓			
	Brazil	✓*			
	Nordics	✓*			
	Argentina			✓	
	China				✓
	Taiwan				✓

*Relaunch

Source: Sinclair Pharma

Given the exceptional performance of Ellansé during 2016, management has commenced a clinical programme to quantify the visible improvements in the quality and tone of a patient's skin following treatment. In the event that this work yields further differentiating characteristics compared to HA fillers, the goal would be to launch a specific line extension for treating fine lines and resurfacing, further enforcing the Ellansé brand. Moreover, such a product would obviate the need to launch the in-licenced Altéan, which has been placed on a development 'hold'.

Financials

Profit & Loss

- ▶ First report under the new accounting period for the year to end December 2016. At this early stage of the year, fiscal 2017 forecasts are on a CER basis
- ▶ **Sales:** CER growth forecast at +30% in 2017, driven by Silhouette and Ellansé, and boosted by full year contributions from InstaLift and Brazil
- ▶ **Gross margin:** High (70.7%) and rising, especially with increased US sales for InstaLift. Forecasts assume that gross margins are trending towards 80%
- ▶ **EBITDA:** Sinclair has fixed costs of ca.£47m (ex D&A). The leverage effect of sales will dictate the level of EBITDA profitability in 2017. Sinclair is forecast to be profitable at the overall EBIT level in 2018

Profit & Loss account					
Year end Dec (£m)	2015	2016	2017E	2018E	2019E
GBP:EUR	1.378	1.223	1.223	1.223	1.223
GBP:USD	1.529	1.354	1.354	1.354	1.354
GBP:REAL	5.09	4.91	4.91	4.91	4.91
Group sales	24.97	37.82	49.0	64.0	80.0
COGS	-7.90	-11.09	-12.7	-16.0	-18.8
Gross profit	17.07	26.73	36.3	48.0	61.2
Gross margin	68.3%	70.7%	74.0%	75.0%	76.5%
Sales & marketing	-14.74	-21.69	-23.9	-25.6	-26.4
Administration	-14.70	-16.57	-15.4	-16.0	-17.2
EBITDA	-7.49	-6.13	2.0	11.3	22.5
EBITDA margin	-30.0%	-16.2%	4.0%	17.7%	28.1%
Depreciation	-0.45	-0.48	-0.5	-0.5	-0.5
Amortisation	-4.44	-4.93	-4.5	-4.5	-4.5
Other income	0.00	0.00	0.0	0.0	0.0
Underlying EBIT	-12.37	-11.53	-3.0	6.4	17.6
Share based costs	-1.31	-1.82	-2.0	-2.0	-2.0
Exceptional items	-0.05	6.54	0.0	0.0	0.0
Statutory Op. profit	-13.74	-6.82	-5.0	4.4	15.6
Net financials	-15.89	-4.74	-3.5	-3.4	-2.4
Pre-tax profit	-28.27	-16.28	-6.4	3.0	15.2
Reported pre-tax	-29.63	-11.56	-8.4	1.0	13.2
Tax payable/receivable	0.95	0.43	0.8	0.4	-2.7
Underlying net income	-27.31	-15.85	-5.6	3.4	12.4
Statutory net income	-28.67	-11.13	-7.6	1.4	10.4
Ordinary shares					
Period-end (m)	496.7	502.1	502.1	502.1	502.1
Weighted average (m)	496.7	499.5	502.1	502.1	502.1
Fully diluted (m)	496.7	499.5	502.1	502.1	502.1
Underlying Basic EPS (p)	-5.50	-3.17	-1.12	0.67	2.48
Statutory Basic EPS (p)	-5.77	-2.23	-1.52	0.27	2.08
U/I Fully-diluted EPS (p)	-5.50	-3.17	-1.12	0.67	2.48
Stat. Fully-diluted EPS (p)	-5.77	-2.23	-1.52	0.27	2.08
DPS (p)	0.0	0.0	0.0	0.0	0.0

Source: Hardman & Co Life Sciences Research

Balance sheet

- ▶ **Net cash/(debt):** At 31st December 2016, Sinclair had net cash of £16.8m
- ▶ **Provisions:** The balance sheet contains provisions for deferred liabilities in relation to Silhouette Instalift and Perfectha milestone payments which will recur in fiscal 2017/18
- ▶ **Warranty:** In the 2016 accounts, Sinclair settled a warranty claim from Alliance Pharma following the unexpectedly poor performance of Kelo-Stretch. £5.0m was charged to the P&L account and the cash payments will be made over the next two years
- ▶ **Debt facility:** On the back of continued investment in marketing and training in the US (physician training), Europe (DTC advertising), and in its Brazilian affiliate, coupled with deferred considerations and milestone payments, Sinclair has arranged a £10m loan facility with its bank. This is not currently drawn down, but is expected to be drawn over two tranches starting later in the year, giving the company maximum financial flexibility

Balance sheet					
Year end Dec (£m)	2015	2016	2017E	2018E	2019E
Shareholders' funds	104.6	100.3	104.6	103.7	117.0
Cumulated goodwill	52.8	65.2	65.2	65.2	65.2
Total equity	157.4	165.6	169.8	168.9	182.3
Share capital	5.0	5.0	5.0	5.0	5.0
Reserves	99.6	95.3	99.6	98.6	112.0
Provisions/liabilities	78.4	39.4	34.0	25.9	8.4
Deferred tax	20.1	24.1	22.6	23.5	21.4
Long-term debt	0.0	0.0	0.0	0.0	0.0
Short-term loans	0.0	0.0	5.0	10.0	10.0
less: Cash	75.4	16.8	7.7	9.9	9.9
less: Deposits	0.0	0.0	0.0	0.0	0.0
less: Non-core invests.	0.1	0.0	0.0	0.0	0.0
Invested capital	127.7	147.0	158.5	153.2	147.0
Fixed assets	1.4	1.7	3.9	6.4	7.5
Intangible assets	70.2	83.7	82.6	81.1	78.7
Goodwill	52.8	65.2	65.2	65.2	65.2
Inventories	5.8	3.8	5.0	6.5	8.1
Trade debtors	9.1	11.9	12.4	13.2	14.5
Other debtors	6.0	1.4	1.4	1.4	1.4
Tax credit/liability	-2.0	-1.1	-1.1	-1.1	-1.1
Trade creditors	-6.9	-4.9	-5.6	-7.0	-8.3
Other creditors	-8.6	-14.7	-5.4	-12.6	-19.1
Debtors less creditors	-2.4	-7.4	1.8	-6.1	-12.5
Invested capital	127.7	147.0	158.5	153.2	147.0
Net cash/(debt)	75.4	16.8	2.7	-0.1	-0.1

Source: Hardman & Co Life Sciences Research

Cashflow

- ▶ **Investment:** Despite continued investment in products and marketing, Sinclair will only be close to cashflow breakeven at the operational level in fiscal 2017, but payment of the first warranty tranche (-£4m) will see outflow of ca.-£6.5m at the free cashflow level. This will revert to cash inflow in fiscal 2018
- ▶ **Milestones/deferred consideration:** Cash payments in relation to milestones for Silhouette InstaLift and Perfectha are due in the next two years (shown under acquisitions)
- ▶ **Cap-ex:** Sinclair is planning to make investments in manufacturing lines to support the sales growth, pre-clinical trial work for FDA approvals, and line extensions for Perfectha, which will result in higher cap-ex (ca.£2.5-3.0m) in each of the next two years
- ▶ **Net cash/(debt):** Forecasts have been adjusted to allow for drawdown of the £10m debt facility in two tranches. At the end of fiscal 2017, Sinclair is forecast to have net cash of ca.£3m. In 2018 and 2019, the company will turn cashflow positive at the free cashflow level, but milestone payments will leave the company in a cash neutral position. However, the leverage effect of high margin Silhouette InstaLift sales in the US could significantly change this position

Cashflow					
Year end Dec (£m)	2015	2016	2017E	2018E	2019E
Trading profit	-12.4	-11.5	-3.0	6.4	17.6
Depreciation	0.5	0.5	0.5	0.5	0.5
Amortisation	4.4	4.5	4.5	4.5	4.5
<i>Inventories</i>	<i>-0.3</i>	<i>2.4</i>	<i>-1.1</i>	<i>-1.5</i>	<i>-1.6</i>
<i>Receivables</i>	<i>-2.3</i>	<i>-3.1</i>	<i>-0.5</i>	<i>-0.8</i>	<i>-1.3</i>
<i>Payables</i>	<i>-2.8</i>	<i>1.6</i>	<i>0.7</i>	<i>1.4</i>	<i>1.2</i>
Working capital	-5.4	0.9	-0.9	-0.9	-1.7
Exceptionals/provisions	-0.5	-4.0	-6.0	-1.0	0.0
Other	0.0	-4.0	0.0	0.0	0.0
Company op cashflow	-13.9	-9.7	-5.0	9.4	20.8
Net interest	-4.5	-2.8	-0.1	-0.6	-0.6
Tax paid/received	-0.5	-0.1	-0.6	-0.6	-1.2
Operational cashflow	-18.9	-12.6	-5.7	8.2	19.0
Capital expenditure	-1.0	-0.7	-2.7	-3.0	-1.5
Sale of fixed assets	0.0	0.0	0.0	0.0	0.0
Free cashflow	-19.9	-13.3	-8.4	5.2	17.5
Dividends	0.0	0.0	0.0	0.0	0.0
Acquisitions	-8.8	-49.4	-5.4	-8.1	-17.5
Disposals	130.5	3.6	0.0	0.0	0.0
Other investments	0.0	0.0	-0.3	0.0	0.0
Cashflow after invests.	101.8	-59.1	-14.0	-2.9	0.0
Share repurchases	0.0	0.0	0.0	0.0	0.0
Share issues	0.0	0.0	0.0	0.0	0.0
Currency effect	-1.0	0.5	0.0	0.0	0.0
Change in net debt	178.3	-58.6	-14.0	-2.9	0.0
Hardman FCF/share (p)	-3.8	-2.5	-1.1	1.6	3.8
Opening net cash	-103.0	75.4	16.8	2.7	-0.1
Closing net cash	75.4	16.8	2.7	-0.1	-0.1

Source: Hardman & Co Life Sciences Research

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