



Major investment at 5x share price

New NED de-risks PO3 and opens markets

Recommendation
Speculative, Strong BUY

Price
\$1.85

Valuation
\$20

Industry
New technology for water treatment, air purification, surface sterilisation and other applications

- The value of PO3’s technology and its opportunities are confirmed by investment by Upjohn Laboratories, the family office of Michigan billionaire Bill Parfet, after extensive due diligence, at nearly 5x the share price.
- Mr Parfet has joined the Board of PO3, endorsing the technology and PO3’s potential, and generating access to customers and markets.
- Investment of \$9.6m to commercialise the FRG technology in air purification and water sanitation, and develop a prototype for surface sterilisation.
 - Water treatment sales are expected in about 9 months
 - Air purification sales are expected in about 12 months.
- Beer & Co.’s valuation of PO3 has increased due to
 - Fewer shares on issue as a result of the placement; and
 - Some de-risking as Mr Parfet joins the PO3 Board.

Snapshot

Market Cap	\$55.7m
Cash held	\$9.6m
	Following placement to Upjohn
Shares on Issue	31.4m
52 Week High	\$2.17
52 Week Low	20.0c
1 month / 6 month VWAP	\$1.76 / \$1.43

Placement at 5x the share price, after extensive due diligence

PO3 has raised \$A 9.6m in new equity by a placement of 4.0m new shares at \$2.40 each. The number of shares placed was PO3’s limit under the 15% placement limit provided by ASX Listing Rule 7.1. The value of the placement covers PO3’s projected funding needs until net revenues exceed costs. Upjohn invested only after extensive due diligence, into both the FRG technology and also PO3’s commercialisation strategy for the technology.

Mr William Parfet, Billionaire, joins Board of PO3, de-risking PO3

Following the extensive due diligence by his family office, Mr Parfet, who has extensive experience in pharmaceutical and medical industries, joins the PO3 Board. Mr Parfet will be able to facilitate access to sales to medical facilities.

FRG technology proven; risk is in the roll-out

The Free Radical Generator (FRG) can produce ozone radicals, from air, and hydroxyl radicals, from moisture. These radicals have a very short life and de-compose back to air and water quickly.

The radicals eliminate bacteria and odour by breaking open (“lysing”) the cells. The technology has been proven in laboratory testing.

Applications for water sanitation, air purification and surface sterilisation are at the application prototype or formal field trial stages. First sales are expected for water sanitation in about 9 to 10 months.

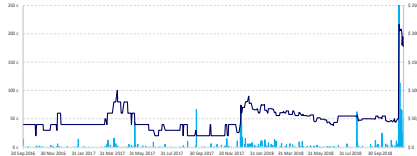
Beer & Co.’s valuation revised to \$20

The \$9.6m equity injection is expected to cover PO3’s financial needs until it is generating sufficient revenue from operations. Beer & Co.’s valuation has increased due to

- fewer shares are now expected to be issued as a result of the placement;
- some de-risking as Mr Parfet joining the PO3 Board should facilitate market access and penetration.

Beer & Co affirms our Speculative, Strong BUY recommendation on PO3

PO3 : daily share price v. value traded



The predecessor to PO3, Water Resources Group (WRG) listed on the ASX in December 2010 to exploit a further development in water de-salination.

After spending \$16.5m, the management and Board was changed in 2013, and a review showed that while a demonstration plant worked, the technology was not able to be scaled up to a commercial size.

The FRG technology is different to the original WRG technology. It has been tested and developed and is now ready to be exploited commercially.

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Placement at 5x share price affirms FRG technology

The family office of Michigan billionaire, Mr William Parfet, has invested \$9.6m in PO3, by a placement at nearly 5x the share price at that time.

The investment was made only after extensive due diligence on

- the FRG technology
- PO3 as a company; and
- PO3’s strategies to commercialise the FRG technology

Mr Parfet has accepted an invitation to join the Board of PO3.

Upjohn Laboratories, which is the family office of Michigan billionaire Bill Parfet, has taken a placement of 4.0m new equity in PO3, at a price of \$2.40 a new share.

Upjohn has also acquired 1.27m shares from an existing shareholder who was seeking to monetise his stake in a non-disruptive manner.

This investment has come after extensive due diligence into both the Free Radical Generator (FRG) technology and also PO3’s commercialisation plans.

Following the due diligence into the FRG technology and PO3 commercial plans and potential, Mr William Parfet has accepted an offer to join the Board of PO3.

This show a very high degree of confidence in both the FRG technology as well as PO3 the company, and will facilitate significant access to medical facilities in North America, especially for surface sterilisation.

The placement was done at a value that was a multiple of about 5x the share price, demonstrating the value of PO3.

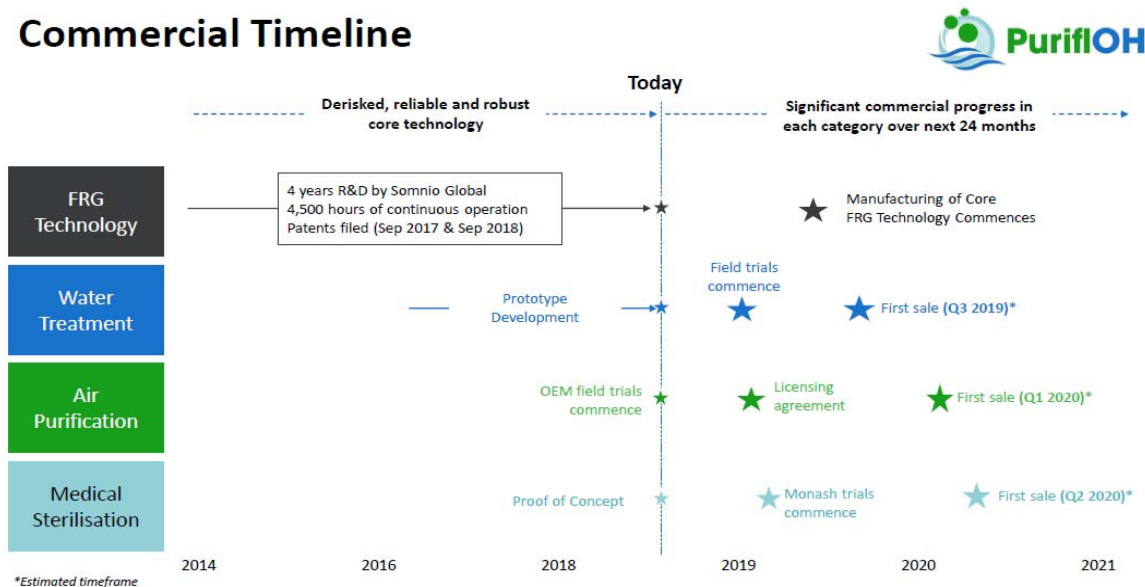
The placement raised sufficient funds for PO3 to get into commercial operation, demonstrating the extent of Upjohn’s support for the company.

The value at which the placement was made supports a key theme from Beer & Co.’s initiation research on PO3 that the share price at that time bore NO reflection on the value of the FRG technology, but instead reflected PO3’s history as a water de-salination technology which was not able to be commercialised. PO3 subsequently spent more than 4 years as a listed company developing the FRG technology with minimal newsflow.

FRG technology is proven; Focus is the roll-out

The key theme of Beer & Co.’s initiation report on PO3, from 13 August was that the FRG technology was proven but there was risk in the roll-out.

Figure 1 : PO3’s Commercialisation and Development of FRG



Source : PO3 November 2018 Presentation

Figure 1 shows 3 “verticals” through which PO3’s FRG technology will be exploited. It shows that first sales are expected in about

- August 2019 for water sanitation; and
- March 2020 for Air purification.

Beer & Co projects that net sales revenue will be sufficient to cover the company’s full operating costs, including sales and working capital needs for supply of the FRG units, by about the end of 2020.

Each of the product verticals was explained in detail in Beer & Co.’s August 2018 initiation research report on PO3. Figure 2 provides more information on each of these verticals and also PO3’s commercialisation strategy.

Figure 2 : PO3’s Commercialisation model, for each vertical

Commercial Model

Refer to Detailed Revenue Model for further Information



Vertical	Air Purification		Water Treatment		Medical Sanitisation
	Residential	Healthcare	Recreational	Commercial	Healthcare
					
Indicative End User Pricing	\$800	\$1,500	\$1,200	\$10,000	\$75,000
Product Positioning	Comprehensive Air Purification System		A true solution for Chemical Substitution		Breakthrough Sterilization System
Business model	<ul style="list-style-type: none"> • Manufacturing of Core Technology • Licensing ‘FRG Inside’ 				<ul style="list-style-type: none"> • Manufacturing and Supply

Source : PO3 November 2018 Presentation

Beer & Co.’s valuation lifted to \$20 a share

In Beer & Co.’s view, Mr Parfet’s involvement in PO3 significantly de-risks investment in PO3

- **The investment was made only after extensive due diligence; and**
- **Mr Parfet has extensive experience in medical and pharmaceutical industries; and**
- **Mr Parfet’s presence on PO3’s Board will facilitate access to potential users of PO3 products.**

Beer & Co has adjusted its modelling of PO3 :

- Sales revenue has been adjusted to accord with the values shown in Figure 2, though the total adjustment is minimal
 - Beer & Co has maintained a gross sales margin of 40%
- Sales have been deferred for water sanitation and air purification, partly due to the time taken to complete this placement which has been a focus for PO3 management;
- Royalties have been increased, as indicated in PO3’s announcement to the ASX of 19 November 2019;
- Our valuation has been partially de-risked by Mr Parfet joining the Board of PO3
 - This was done only after extensive due diligence into both the FRG technology and also PO3’s potential and commercialisation pathway;
 - Mr Parfet has had a long career and family history in the pharmaceutical and medical industries; and
 - The fact that an American billionaire is prepared to join the Board of an ASX listed company with a market cap of less than US\$ 50m speaks very loudly to his confidence and commitment
- The number of shares assumed to be required to be issued to fund PO3 into commercial operations has been significantly reduced
 - Our previous modelling had assumed standard financial market placement terms, with small volumes at a discount to the expected price, so that a total of 62.5m shares were issued, compared with 4.0m in the just completed placement.

Figure 3 shows the details of Beer & Co.'s revised valuation of PO3.

Figure 3 : Beer & Co.'s revised valuation					
discount rate = 12.0 %		30 June 2018			16-Nov-18
AUD m	risk :	100%	Product	per share	
Air Purification					
USA	35 %	293	103	\$A 3.0	\$A 3.1
Japan / Korea	25 %	319	80	\$A 2.3	\$A 2.4
Europe	25 %	73	18	\$A 0.5	\$A 0.6
Middle East / Other	10 %	78	8	\$A 0.2	\$A 0.2
Water Sanitation (Pools)					
USA	40 %	65	26	\$A 0.8	\$A 0.8
Australia	40 %	5	2	\$A 0.1	\$A 0.1
Europe	25 %	31	8	\$A 0.2	\$A 0.2
Surface Sterilisation					
USA	12 %	1,683	202	\$A 5.9	\$A 6.1
Europe	10 %	1,547	155	\$A 4.5	\$A 4.7
Japan / Korea	10 %	666	67	\$A 1.9	\$A 2.0
Corporate					
franking credits	40 %	0	0	\$A 0.0	\$A 0.0
Corporate (ASX)	100 %	(8)	(8)	(\$A 0.2)	(\$A 0.2)
Equity raisings	100 %	12	12	\$A 0.4	\$A 0.3
Cash / Debt	100 %	(1)	(1)	(\$A 0.0)	(\$A 0.0)
TOTAL		4,762	671	\$A 19.5	\$A 20.3
Shares on issue		27.3m	F P O shares	0.0m	Options
		7.1m	to be issued	0.0m	exercised

Source : Beer & Co estimates

Beer & Co.'s valuation has been increased due to

- A smaller number of shares being issued due to the value at which this placement was made; and
- Some small de-risking of our valuation, especially for the medical applications.

Beer & Co affirm our Speculative, Strong BUY recommendation on PO3.

Beer & Co sees significant potential for further upside.

However, PO3 has a proven technology and is still to prove its commercial value.

Conclusions

Beer& Co has increased our valuation of PO3 as the placement of 4.0m new shares at \$2.40 each means that the total number of shares on issue will be much less than we had allowed for in our initiation research of 13 August 2018.

Beer & Co affirms our Speculative, Strong BUY recommendation due to the significant gap between our risk adjusted valuation and the current share price.

In Beer & Co.'s view, there is significant further upside potential to our valuation :

- We have allowed for a further issue of equity on a "just in case" basis, to cover working capital needs as we have assumed payment terms of 60 days from the manufacturers, while needing to pay for the costs of producing the FRG units
 - The shortfall can be covered by debt providers for working capital
- We have included little of the value for surface sterilisation, and this vertical has the highest value on an un-risked basis
 - This is due to the need to develop an application prototype and then the need to obtain regulatory approval, which is expected to be time-consuming and difficult, despite its clear advantage;
- We have assumed only very modest market penetration at the end of our 15 year valuation period, with no residual value
 - We have assumed only about 1% penetration into the air purification market, 10% - 15% in water and 12% - 15% in surface sterilisation;
 - Further detail is included in our initiation research report of 13 August 2018
- There are many further areas into which the FRG technology can be applied, and PO3 has nominated industrial waste water treatment, water recycling ad aquaculture as further areas.

The current potential, with further value, supported by the work done for the investment by Upjohn Laboratories, supports Beer & Co.'s Speculative, Strong BUY recommendation on PO3.

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The author of this report owns Purifloh shares in his SMSF.

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The analyst responsible for this research report certifies that all of the views expressed reflect his personal views about the securities and the issuer.

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Recommendation : Beer & Co.'s investment recommendation is driven by the difference between our base case, risked valuation and the share price at the time. A Strong BUY recommendation means a very large difference (eg. over 100%), while BUY means a significant difference and Accumulate means a small, but positive difference. The recommendation is not independent of the uncertainty in Beer & Co.'s valuation; the greater the degree of uncertainty, the greater the difference between price and value required for a positive recommendation.

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