EVOLUTION CAPITAL

BLS | UPDATE REPORT | HEALTHCARE

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Record Year, Export Book Building

BLS Pharmaceuticals Ltd

BLS delivered FY26 revenue of $74.98m and adjusted EBITDA of $19m. Management guided to $65-75m and $16.5-19m, and both numbers landed at the top of the range. Revenue grew 156% on FY25. The June quarter was the largest in the company's history at $22.5m. Eight consecutive quarters have delivered year-on-year growth above 100%.

Model Considerations

Cash closed at $13.3m against $8.5m in March, and the June quarter generated $6.3m of operating cash flow, the strongest the company has reported. We have removed the $15m FY27 equity raise from our model. BLS funds Scotland commissioning and the German ramp from internal cash flow and existing facilities, including an undrawn $3m Westpac overdraft executed 10 July. The removal takes 17.6m shares from our diluted count and drives most of the target price increase.

Australian Market

SAS-B approvals reached a monthly record of 22.93k in June and calendar 2026 is tracking ahead of 2025, though dispensed units have fallen over the same period. The TGA's flagged consultation into SAS and Authorised Prescriber oversight is the principal regulatory risk, though its stated scope targets prescribing conduct and vertically integrated telehealth rather than licensed manufacture and wholesale.

Inventory Growth: What is the Cause?

The qualification to an otherwise clean result is working capital. BLS converted $19m of EBITDA into $5.9m of operating cash flow, with inventory rising from $3.6m to $18.0m. That build accounts for the entire gap. Management attributes it to stock held against forecast demand, consistent with the Adrex commitment and the Aurora agreement. We now carry 189 inventory days, up from 90. The audited accounts on 26 August should establish whether this is forward cover or slow-moving stock.

Valuation

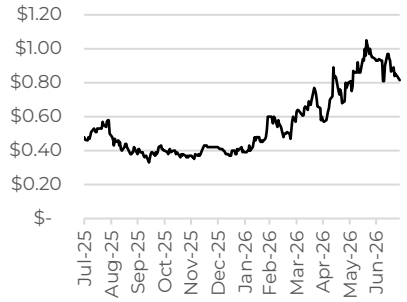
Our DCF maintains a 12.1% WACC and 12x exit multiple. It returns a fair valuation of $1.60. At $0.815/sh, BLS trades on 9.4x FY26 EBITDA and 6.8x FY27. That is below the offshore CDMO comps that share its margin and growth profile.

(A$m unless noted)	FY26A	FY27E	FY28E	FY29E	FY30E
Revenue	75.0	102.5	123.0	143.5	163.5
Revenue growth	*+156%*	*+36.7%*	*+20.0%*	*+16.7%*	*+13.9%*
EBITDA	19.0	26.3	33.5	40.5	47.7
EBITDA margin	*25.3%*	*25.7%*	*27.2%*	*28.2%*	*29.2%*
Net income	17.4	20.3	23.2	26.9	29.5
Cash balance	13.3	10.6	30.6	46.2	73.3
EV / EBITDA	9.4x	6.8x	5.0x	3.8x	2.6x
P / E (basic)	11.5x	9.9x	8.6x	7.4x	6.8x

Recommendation	**SPEC BUY**
Price Target	(prev. $1.50) **$1.60**
Share Price	**$0.815**
TSR	**+96%**

Company Profile	
Market Cap	$187.4M
Enterprise Value	$178.4M
SOI (diluted)	245.7m
Free Float	54.2%
ADV (3-month)	$380K
52-Week Range	$0.33-1.10

Price Performance



%	1M	3M	12M
Absolute	-16.0%	23.5%	70%
ASX200	1.0%	1.2%	1.6%

Company Overview

BLS Pharmaceuticals (ASX: BLS), formerly Bioxyne Limited, manufactures GMP-certified controlled substances (medicinal cannabis, MDMA and psilocybin) through its subsidiary Breathe Life Sciences, on a licence stack spanning TGA-GMP, ODC import/export and EU-GMP with recognition across Germany, the UK, Japan and Czechia. It is NPAT-positive after eight consecutive quarters of triple-digit revenue growth, with contracted German offtake to ADREXpharma and a second GMP facility in Scotland anchoring FY27.

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Coverage

Initiation *26 May 2026*

FY26 Performance

The June quarter delivered $22.5m of revenue, 5% ahead of the March quarter and the fifth consecutive quarterly increase. Cash receipts were $20.7m for the quarter and $72.9m for the year, up 125% on FY25. Adjusted EBITDA of $19m implies a 25.3% margin, against 20.3% in FY25, with the improvement driven by operating leverage over a broadly fixed overhead base rather than by pricing.

Sequential momentum is moderating, and this bears directly on the FY27 build. The December quarter grew 23% on September and March grew 24% on December; June grew 5%. Part of that reflects a materially larger base. Part of it reflects that the Australian book is maturing faster than the export book is scaling, and the offshore contracts signed during the quarter had not begun contributing at volume.

Working Capital & Funding

FY26 operating cash flow of $5.9m sat $13.1m below adjusted EBITDA. Inventory movement of $14.4m accounts for the entire variance and more. Capital expenditure was $3.7m for the year, of which $2.6m fell in the June quarter and $2.1m has been directed to Scotland, part-funded by $1.0m in loans and $0.5m in grants from South of Scotland Enterprise. Option exercises contributed $1.3m during the quarter and $1.4m across the year. Drawn borrowings at 30 June were $1.67m across NAB and South of Scotland Enterprise facilities.

Our FY27 model carries operating cash flow of $12.9m against capital expenditure of $15.6m, producing negative free cash flow of $2.7m and a cash trough near $10.6m. Including the undrawn overdraft, available liquidity at the low point is approximately $13.6m. That is sufficient, though it assumes the inventory position stabilises rather than continuing to build at the FY26 rate.

The Australian Market

Record SAS-B Approvals in June; Dispensed Volumes Diverge

June set a record at 22.93k SAS-B approvals for Medicinal Cannabis. The prior high was April 2025, so fourteen months elapsed before a new peak was established. Both observations are material: the market continues to expand, and it is no longer expanding at the rate seen through 2023 and 2024. Approvals and dispensed volumes have diverged. Industry data from AHPRA/Penington Institute has Australian units falling from a 3.72m half-year peak to 2.65m. Approvals are lodged per patient per product and rise with product proliferation, so a rising approval count is consistent with a flat-to-falling dispensed base. We read the domestic market as still adding patients while contracting in units per patient.

TGA Consultation is Pending

Regulation is the more consequential variable. In April the TGA signalled a consultation examining whether the SAS and Authorised Prescriber (AP) pathways provide adequate oversight of the 1,000-plus unapproved cannabis products currently supplied in Australia, with a second arm addressing vertically integrated telehealth businesses prescribing their own products. AHPRA has separately pursued high-volume prescribers, including practitioners issuing in excess of 10,000 scripts across six months, and the RANZCP has advocated removing cannabis from the SAS altogether. The Department of Veterans Affairs Medicinal Cannabis Framework, in force since 16 February 2026, is the harder constraint already enacted: in-person consultation for a first prescription, specialist registration, and limits of 25% THC and 2g per day, with grandfathered veterans required to comply by 1 September 2026.

Enforcement Falls on Prescribers, Not Manufacturers

BLS is mostly insulated in our view. It manufactures and wholesales under a TGA-GMP licence and does not own the prescribing relationship or operate a direct-to-consumer clinic. Enforcement directed at consultation quality and telehealth marketing falls on clinics and platforms first. A regime that removes the least rigorous operators may well redirect volume toward manufacturers with auditable quality systems rather than away from them.

Germany: ADREX and Legislation

ADREX Is an Established Channel; BLS Succeeds MediPharm

ADREXpharma is an independent German pharmaceutical wholesaler licensed for controlled drugs, with distribution reach across approximately 20,000 pharmacies and a stated policy of sourcing exclusively from EU-GMP certified producers. It is not a new entrant: it has held supply arrangements with international producers since 2019, including a five-year agreement with MediPharm Labs that ran to June 2026. That expiry coincides with the BLS agreement, which suggests BLS has stepped into an established supply position.

MedCanG Stalled in Committee; Nothing Moves Before 7 September

The legislative position is unresolved and is the sector's central European risk. The CDU/CSU-led government has proposed amendments to the Medical Cannabis Act that would prohibit telemedicine-only prescribing and ban mail-order pharmacy dispensing, requiring in-person consultation. The Federal Cabinet approved the draft in October 2025 and it passed a first Bundestag reading on 18 December 2025, after which it was referred to the Health Committee. It has not advanced to second and third readings and is not law. The Bundesrat supported tighter prescribing rules while rejecting the mail-order penalties, and the SPD, whose support the coalition requires, has indicated it will not back the bill as drafted. The Health Committee held a public hearing on 14 January 2026 and the vote has since been deferred rather than scheduled. The Bundestag rose on 10 July and does not resume plenary business until 7 September 2026, so the amendment cannot advance before then.

The Bill Targets Telehealth; BLS Supplies the Wholesale Tier

Telemedicine and mail-order are precisely the channels that generated the post-2024 demand surge, so the proposal targets the growth mechanism directly. We would make two points in mitigation. First, BLS supplies a licensed wholesaler rather than a telehealth platform, and the restriction operates on the prescribing and dispensing interface rather than on import or wholesale supply. Second, even under scenarios contemplating a 20-30% reduction in demand, Germany remains the largest medical cannabis import market in Europe by a substantial margin. We are monitoring the spring and autumn readings and would revisit the FY27 German contribution if the bill advances in its current form.

GJV Reimbursement Cut Passed 10 July; 65k of Over 1m Patients

A second measure has passed and is the more immediate development. The Bundestag approved the GKV-Beitragssatzstabilisierungsgesetz (fee-stabilising law) on 10 July 2026, removing dried cannabis flower from statutory health insurance reimbursement entirely and requiring a six-month trial of an approved finished medicine before extracts qualify. The Bundesrat did not refer it to the mediation committee, so the parliamentary process is complete, though it had not been promulgated in the Bundesgesetzblatt (legislation) at the time of writing and the effective date remains open. Approximately 65,000 patients are reimbursed through the statutory system against a German patient base above one million. Those patients do not leave the market; they move to private prescription, which is the pharmacy and mail-order channel ADREX serves. We treat the measure as neutral to marginally positive for contracted BLS volumes and have not adjusted the German forecast for it.

Flower at EUR 4/kg; the Exposure is Margin

Price is the more consequential German variable and it has moved against the sector since our initiation. Pharmacy-level survey data has the average flower price at approximately EUR 4 per gram in the June quarter, against the EUR 5.23 we carried at initiation and EUR 8.33 in January 2025. The ADREX minimum is expressed in dollars rather than volume on the disclosure available, so deflation does not reduce the contracted FY27 revenue line; it means the same commitment is filled with more units, which consumes capacity and compresses unit margin. Gross margin on German revenue, rather than German revenue itself, is the disclosure we will be looking for on 26 August.

Manufacturing Footprint

Scotland Slip to September

Scotland is on schedule to complete commissioning in September 2026, which extends GMP manufacture into the United Kingdom and removes an import step for UK supply. Year-to-date facility capital expenditure of $2.1m against $1.0m in loans and $0.5m in grants from South of Scotland Enterprise indicates the build is being delivered on modest net outlay. We would note that commissioning is a build milestone rather than a licensing one: MHRA GMP and Home Office Schedule 2 approval remain the gate on UK-manufactured supply, and our forecast continues to assume a contribution from late FY27 rather than on commissioning.

Aurora Validates the Quality System

The Aurora Cannabis manufacturing agreement executed during the quarter is strategically more significant than its initial volumes suggest. Opening scope covers medicinal cannabis oils for Australia with extension to vape products across Australia, the United Kingdom and Germany. First sales comprised in excess of 5,000 sublingual oil units and 20,000 vape products. A producer of Aurora's scale contracting out finished dose-form manufacture is a meaningful third-party validation of the quality system, and it positions BLS as a manufacturing counterparty to global operators seeking regulated market access rather than solely as a brand owner. Aurora has since guided fiscal 2027 revenue and adjusted EBITDA below fiscal 2026. The driver is Canadian medical reimbursement change and the exit from its low-margin Canadian consumer and propagation businesses, while its German and Polish medical revenue continues to grow and it acquired an EU-GMP facility in April to serve it. We read the guidance as Canada-specific rather than as a signal on the European medical channel BLS supplies.

QMID Has Gone Quiet

One line carried in our initiation has gone quiet. The Curaleaf International QMID inhalation device, licensed exclusively to BLS and carried in our capacity bridge at approximately $14.6m of revenue-equivalent, was not mentioned in the June-quarter report, and Curaleaf commentary in June still described the Australian regulatory pathway as in progress. No termination has been announced. We attribute no revenue to it and will seek confirmation of status.

Psychedelics Are Optionality; TGO 112/113 Harden the Position

First commercial sales of BLSPSIL25, a GMP-manufactured psilocybin capsule, comprised 250 doses supporting roughly 60 patients over twelve months under the Authorised Prescriber pathway. The strategic value lies in BLS being among a small number of Australian manufacturers able to supply GMP-compliant psilocybin in finished dose form. We attribute no material revenue to it inside the forecast period. Latin America is at a comparable stage, with an initial Costa Rican shipment through Remidose LATAM worth in excess of $500,000. The regulatory position is firmer than our initiation described. TGO 112 and TGO 113 have set mandatory quality standards for MDMA and psilocybine API and finished product since 6 January 2025, with offence provisions applying across the supply chain rather than to the sponsor alone, and the TGA published recommendations in May 2026 to broaden Authorised Prescriber eligibility and relax treatment-site requirements.

Financial Summary

VALUATION DETAILS	
Share Price (A$)	$0.815
Market Cap (A$m)	187.4
Enterprise Value (A$m)	178.4
Fair Value/Share (A$)	$1.60

STATEMENTS (A$m)	FY26E	FY27E	FY28E	FY29E	FY30E
Income Statement					
Revenue	75.0	102.5	123.0	143.5	163.5
EBITDA	19.0	26.3	33.5	40.5	47.7
EBIT	17.4	23.9	29.0	35.8	41.8
Net Income	17.4	20.3	23.2	26.9	29.5
Balance Sheet					
Cash & Cash Equivalents	13.3	10.6	30.6	46.2	73.3
Inventory	18.0	23.6	28.0	32.3	36.4
Receivables	4.4	5.9	7.1	8.3	9.4
Other Assets	11.1	30.1	31.7	41.8	43.3
Total Assets	**46.7**	**70.2**	**97.4**	**128.6**	**162.4**
Total Debt	1.7	1.7	1.7	1.7	1.7
Other Liabilities	12.7	14.2	16.3	18.4	20.4
Total Liabilities	**14.4**	**15.9**	**17.9**	**20.0**	**22.0**
Shareholders' Equity	**32.3**	**54.4**	**79.5**	**108.6**	**140.4**
Cash Flow Statement					
Net Income	17.4	20.3	23.2	26.9	29.5
Add: D&A	0.3	0.7	2.5	2.5	3.6
Less: Change in NWC	(12.3)	(9.9)	(4.5)	(4.4)	(4.2)
Cash Flow Operations	**5.9**	**12.9**	**23.1**	**27.2**	**31.2**
Cash Flow Investing	**(3.9)**	**(15.6)**	**(3.1)**	**(11.6)**	**(4.1)**
Equity Raised (net)	1.4	-	-	-	-
Less: Dividends Paid	-	-	-	-	-
Cash Flow Financing	**3.6**	**-**	**-**	**-**	**-**
Unlevered FCFF	**2.0**	**(2.7)**	**20.0**	**15.6**	**27.1**

PER SHARE DATA	FY26E	FY27E	FY28E	FY29E	FY30E
Diluted SOI (m)	245.7	245.7	245.7	245.7	245.7
Normalised EPS (A$)	0.071	0.083	0.094	0.110	0.120
DPS (A$)	-	-	-	-	-
Payout	-	-	-	-	-
Franking	-	-	-	-	-

RATIOS	FY26E	FY27E	FY28E	FY29E	FY30E
Liquidity					
Current Ratio	0.78x	0.80x	0.63x	0.73x	0.72x
Quick Ratio	0.57x	0.40x	0.26x	0.42x	0.45x
Solvency					
Debt to Equity	5.2%	3.1%	2.1%	1.5%	1.2%
Equity to Assets	69.2%	77.4%	81.6%	84.4%	86.4%
Profitability					
ROA (Return on Assets)	37.3%	28.9%	23.8%	20.9%	18.2%
ROE (Return on Equity)	53.9%	37.4%	29.1%	24.8%	21.0%
EBITDA Margin	25.3%	25.7%	27.2%	28.2%	29.2%
NPAT Margin	23.2%	19.8%	18.8%	18.8%	18.0%
Growth					
Revenue	164.0%	36.7%	20.0%	16.7%	13.9%
EBITDA	229.3%	38.6%	27.0%	21.0%	18.0%
Underlying NPAT	338.7%	16.6%	14.1%	16.3%	9.5%
EPS	338.7%	16.6%	14.1%	16.3%	9.5%
Valuation					
P/E	11.5x	9.9x	8.6x	7.4x	6.8x
EV/Revenue	2.5x	1.8x	1.4x	1.1x	0.8x
EV/Adj. EBITDA	9.4x	6.8x	5.0x	3.8x	2.6x
Dividend Yield	-	-	-	-	-

Evolution Capital Ratings System

Recommendation Structure	• **Buy:** The stock is expected to generate a total return of >10% over a 12-month horizon. For stocks classified as 'Speculative', a total return of >30% is expected. • **Hold:** The stock is expected to generate a total return between -10% and +10% over a 12-month horizon. • **Sell:** The stock is expected to generate a total return of <-10% over a 12-month horizon.
Risk Qualifier	• **Speculative ('Spec'):** This qualifier is applied to stocks that bear significantly above-average risk. These can be pre-cash flow companies with nil or prospective operations, companies with only forecast cash flows, and/or those with a stressed balance sheet. Investments in these stocks may carry a high level of capital risk and the potential for material loss.
Other Ratings:	• **Under Review (UR):** The rating and price target have been temporarily suppressed due to market events or other short-term reasons to allow the analyst to more fully consider their view. • **Suspended (S):** Coverage of the stock has been suspended due to market events or other reasons that make coverage impracticable. The previous rating and price target should no longer be relied upon. • **Not Covered (NC):** Evolution Capital does not cover this company and provides no investment view.

Expected total return represents the upside or downside differential between the current share price and the price target, plus the expected next 12-month dividend yield for the company. Price targets are based on a 12-month time frame.

Disclaimer & Disclosures

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