

Cynata Therapeutics, Ltd. (ASX: CYP), Target Price: \$AUD 1.55

We initiate coverage on Cynata Therapeutics, Inc. (ASX: CYP, "Cynata") with a price target of \$1.55 per share. Headquartered in Melbourne, Australia, Cynata is an emerging regenerative medicine company with an innovative and potentially transformative approach to the manufacturing of mesenchymal stem cells (MSCs) for therapeutic use. There is a growing global acceptance of the vast market potential for medical applications of stem cells, but current methods of production using donor-derived sources of MSCs have constrained supply and made mass production of MSCs uneconomical and often impractical. With what has the potential to be a revolutionary advancement in the stem cell field, Cynata has developed a new platform technology, Cymerus™, which uses induced pluripotent stem cells (iPSCs) in a unique process that promises near-infinite scale of vibrant and robust MSCs – at a fraction of the cost of conventional donor-derived methods. Cynata validated its unique process at Madison, Wisconsin-based Waisman Biomanufacturing earlier this year, and we see several catalysts ahead for the company as it engages strategic partners around the world in pursuit of off-the-shelf commercialization of therapeutic MSCs – a potentially game-changing development in the field.

INVESTMENT HIGHLIGHTS

Compelling risk reward opportunity in stem cells

Unlike many emerging biotechnology companies with a promising therapeutic product line requiring numerous costly clinical trials in order to prove therapeutic efficacy for a specific indication, we see Cynata's novel stem cell production platform Cymerus™ as having less risk because the potential clinical utility of MSCs has already been established in a variety of therapeutic applications. Cymerus™ employs science that was invented by stem cell pioneer Dr. James Thomson, and his colleague, Dr. Igor Slukvin, who was a co-founder of Cynata. The company's in-licensed technology includes several issued US patents as well as a broad estate of issued and pending patents. Importantly, Cynata validated the Cymerus™ technology platform at a US-based GMP facility, Waisman Biomanufacturing – a key accomplishment for the company, in our view. Over the next year we expect the company to complete a targeted Phase I clinical study intended to confirm the effectiveness of Cymerus™ stem cells for therapeutic use, which we believe will be for patients affected by graft-versus-host disease (GvHD), an indication for which the therapeutic benefits of MSCs has already been established.

Strategic partnership discussions offer significant potential

Following the validation of the Cymerus™ platform technology, Cynata should be in an attractive position to engage strategic partners to assist with the commercialization of Cymerus™ for various medical applications. We see the partnership route as a prudent and capital-efficient path toward commercialization. Cynata management has already indicated publicly that it has held strategic partner conversations with a number of pharmaceutical companies, and the company expects to make an announcement by the end of 2015E about its first partnership. We note that the stem cell industry has experienced increased deal activity from multinational corporations, including the recent \$307mn acquisition of Madison, Wisconsin-based Cellular Dynamics (ICEL) by Japan-based FujiFilm, as well as a \$205mn licensing partnership between Cleveland, OH-based Athersys and Japanese pharmaceutical company Chugai, in which Athersys will receive a \$10mn upfront license payment, up to \$45mn in development and regulatory milestones, and \$150mn in potential sales milestones, in addition to royalties, for Japanese commercialization rights to MultiStem, Athersys' off-the-shelf regenerative therapy currently undergoing a Phase 2 trial for stroke recovery.

Initiate coverage with a price target of \$1.55

Our analysis indicates a fair value estimate of \$1.55 per share (detailed on page 10), for Cynata. If achieved, the target represents potential upside of 229.8% from the recent price of \$0.47. We view Cynata as an innovative company in the biotechnology industry offering a compelling risk reward trade off as it seeks to commercialize a potentially game changing proprietary stem cell production technology.

Stock Details (8/25/2015)

ASX:	CYP
Sector / Industry	Healthcare / Biotechnology
Price target	\$1.55
Recent share price	\$0.47
Shares o/s (mn)	72.7
Market cap (in \$mn)	34.2
52-week high/low	\$1.44 / \$0.32

Source: Bloomberg, SeeThruEquity Research, \$AUD unless noted

Key Financials (\$AUDmn unless specified)

	FY13	FY14	FY15A
Revenues	0.0	0.11	0.4
EBITDA	(0.8)	(3.0)	(3.7)
EBIT	(0.8)	(3.0)	(3.7)
Net income	(0.9)	(3.0)	(3.7)
EPS (\$)	(0.04)	(0.07)	(0.06)

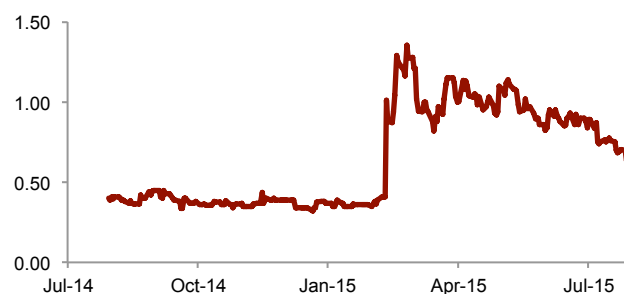
Source: SeeThruEquity Research, \$AUD unless noted

Key Ratios

	FY13	FY14	FY15A
Gross margin (%)	74.4	N/A	N/A
Operating margin (%)	(2,497.2)	N/A	N/A
EBITDA margin (%)	(2,497.2)	N/A	N/A
Net margin (%)	(2,696.1)	N/A	N/A
P/Revenue (x)	N/A	N/A	N/A
EV/Revenue (x)	N/A	N/A	N/A

Source: SeeThruEquity Research

Share Price Performance (\$AUD, YTD)



Source: Bloomberg

SUMMARY TABLE

Figure 1. Summary Table (As of August 25, 2015)

Share data		B/S data (As of FY15)		Key personnel:	
Recent price:	\$0.47	Total assets:	14.1mn	CEO:	Dr. Ross Macdonald
Price target:	\$1.55	Total debt:	0.0mn	Executive Chairman:	Dr. Stewart Washer
52-week range:	1.44 / 0.32	Equity:	14.8mn	VP, Product Development:	Dr. Kilian Kelly
Average volume:*	151,873	W/C:	9.3mn		
Market cap:	\$34.2	ROE:	NM		
Book value/share:	\$0.18	ROA:	NM		
Cash/share	\$0.13	Current ratio:	24.3		
Dividend yield:	0.00%	Asset turnover:	NM		
Risk profile:	High / Speculative	Debt/Cap:	0.0		

* three month average volume (number of shares), \$AUD unless noted; B/S data adjusted to reflect recent \$5mn offering

FY June	Estimates				Valuation	
	Rev (\$mn)	EBITDA (\$mn)	EPS (\$)	P/Rev (x)	EV/Rev (x)	P/E (x)
2013A	0.0	(0.8)	(0.04)	NM	NM	NM
2014A	0.1	(3.0)	(0.07)	NM	NM	NM
2015A	0.4	(3.7)	(0.05)	NM	NM	NM
2016E	5.0	1.5	0.02	8.7x	0.4x	32.0x
2017E	5.0	0.9	0.01	8.7x	6.8x	79.2x

Source: SeeThruEquity Research, \$AUD unless noted

INVESTMENT THESIS

We initiate coverage on Cynata Therapeutics, Ltd. (ASX: CYP, "Cynata") with a price target of \$1.55 per share. Headquartered in Melbourne, Australia, Cynata is an emerging regenerative medicine company with an innovative and potentially transformative approach to the manufacturing of mesenchymal stem cells (MSCs) for therapeutic use. There is a growing global acceptance of the vast market potential for medical applications of stem cells, with Transparent Market Research (TMR) projecting the global market for stem cells to reach \$119.5Bn by 2019E. MSCs represent a key portion of this market, with far-reaching potential therapeutic applications in a number of major diseases associated with aging, including stroke, heart attack, cancer and neurodegenerative diseases, among others. Unlike many emerging biotechnology companies with a promising therapeutic product line requiring numerous clinical trials in order to prove therapeutic efficacy for a specific indication, we see Cynata's novel stem cell production platform Cymerus™ as having less regulatory risk. Indeed, the potential clinical utility of MSCs has already been established in a variety of therapeutic applications, and there are approximately 300 clinical trials taking place around the world investigating potential therapeutic applications of MSCs.

Despite the vast market potential and revolutionary medical implications for MSCs, their widespread production has been slowed by supply constraints as well as the high costs and regulatory complications of current production methods, which use adult donor-derived stem cells. Cynata's proprietary Cymerus™ stem cell manufacturing technology promises to overcome many of the practical, economical and regulatory impediments that have affected current methods of MSC production. Indeed, Cynata's Good Manufacturing Process (GMP) production process offers the potential to commercialize MSCs for

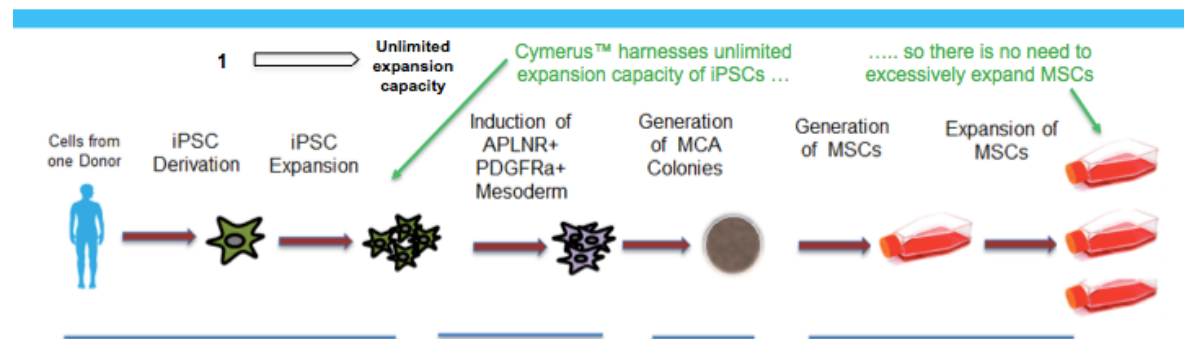


off-the-shelf therapeutic use in an economic, efficient, and scalable process using induced pluripotent stem cells (iPSCs). Cynata recently tested its method of manufacturing robust and reproducible MSCs at Waisman Biomanufacturing in Madison, Wisconsin, validating what Cynata has described as a “game-changing therapeutic technology.” In our view, the achievement was a critical milestone for the company, and we expect Cynata to leverage the success as it pursues strategic partnerships with multinational pharmaceutical corporations to explore the use of its proprietary Cymerus™ platform technology for a number of therapeutic applications – including the creation of mass-produced, off-the-shelf stem cells. In parallel, we expect Cynata to pursue an important clinical study over the next year evaluating the effectiveness of Cymerus™-produced stem cells for graft-versus-host disease (GvHD) patients. This study holds significant importance for the company, as it may demonstrate the efficacy and robust nature of Cymerus™-produced stem cells in an area in which MSCs have already been shown to have therapeutic applications. Cynata raised \$5mn from a private placement in July, which reduces financial risk for Cynata and should provide ample funding for the company to focus on its partnership and clinical study efforts.

Unique Cymerus™ technology platform has the potential to revolutionize MSC production

Cynata is developing a proprietary therapeutic stem cell platform technology, Cymerus™, which is designed to address the key challenges and limitations associated with the current process of manufacturing MSC-based therapeutic products. Cymerus™ leverages discoveries made at the University of Wisconsin-Madison, a world-renowned institutional leader in stem cell research. Indeed, the original inventors of the science used in Cymerus™ include well-known stem cell pioneer Dr. James Thomson, who derived the first human embryonic stem cell in 1998 and derived human pluripotent stem cells in 2007, and his colleague Dr. Igor Slukvin. Dr. Slukvin is a co-founder of Cynata and is well regarded in the stem cell industry, authoring over 70 publications in stem cell field. Cynata in-licensed the intellectual property (IP) from the University of Madison-Wisconsin including several issued patents as well as a broad estate of issued and pending patents.

Core to the Cymerus™ platform is its ability to create a near-limitless supply of robust, reliable mesenchymal stem cells (MSCs) for therapeutic use, potentially solving several economic and practical problems that have constrained MSC supply in current production methods, which generally rely on donors as the source of supply. Donor-derived MSCs are expensive, have problems with scale, and face potential regulatory complexities due to the potential for donor-to-donor variability. For example, a typical bone marrow transplant yields up to 20,000 MSCs, but single treatment doses of MSCs have been shown to require millions of MSCs per kilogram, which means that several donors must be used to derive enough MSCs, and that stem cells must be “expanded” significantly – a process which may cause the later generations of the cells to lose their robustness and efficacy. In contrast, with Cymerus™, Cynata believes it will be able to produce a near infinite amount of from a single iPSC bank, derived from a single blood donation. Therefore, the company’s platform should offer consistently robust MSCs from a much more cost-effective process, as there will be no need for Cynata to continuously source, screen, and test new donors, nor will there be issues with donor-to-donor variability. Perhaps most importantly, the use of what the company has called an “essentially limitless starting material” will facilitate Cynata’s pursuit to expand MSCs in culture in order to generate the vast numbers of cells required to provide commercially-viable treatments for major diseases including off-the-shelf therapeutics.



Source: Company, SeeThruEquity Research

Partner-based strategy leverages growing stem cell interest from Big Pharma

Cynata's management has outlined an appealing, capital-efficient commercialization strategy for what appears to be a potentially game-changing technology for manufacturing MSCs. Although we expect Cynata to initiate limited pre-clinical studies to demonstrate that the Cymerus™ platform can create robust and effective MSCs in a cost-efficient and scalable process, we expect the company will pursue a license-driven partner-based commercialization strategy. The clear advantage of this strategy is that it mitigates the financial risk for Cynata given its relatively small size and the substantial time and costs required to bring new therapeutic products to market due to costly clinical trials and the complex regulatory environment. Additionally, the strategy should enable the company to generate revenues more quickly through potential license fees, research and development payments, with longer term potential from royalty payments.

Our conversations with Cynata management suggest that the company is targeting an initial partnership announcement during calendar 2015E, followed quickly with initial revenues. It is too early to tell how management will structure its partnership strategy with the Cymerus™ platform. At present Cynata has significant flexibility and could structure deals based on geography, target indication, or a combination of the two. Our analysis assumes the company achieves at least three partnerships by 2018E targeting diseases associated with ageing including stroke, cancer, and neurodegenerative diseases. The timing for partnership discussions appears favorable. Cynata management has indicated that it is participating in several ongoing discussions, and recent activity in the space points to growing interest by large pharmaceutical corporations in stem cell technology. In March 2015, for example, Madison, Wisconsin-based Cellular Dynamics, Incorporated (ICEL) was acquired by Japan-based FujiFilm in a transaction valued at \$307mn, or 18.4x CDI's 2014 revenues. The following month, pharmaceutical giant Celgene (CELG) made a \$45mn strategic investment in another Australian stem cell company, Mesoblast Ltd., which guarantees Celgene first right of refusal over licensing deals for the commercialization of Mesoblast's adult stem cell products in the treatment of certain diseases. A final recent deal we see as particularly relevant to Cynata because of the focus on creating off-the-shelf stem cells is the \$205mn partnership announced in 1Q15 between Cleveland, OH-based Athersys and Japanese pharmaceutical company Chugai in which Athersys will receive a \$10mn upfront license payment, up to \$45mn in development and regulatory milestones, and another potential \$150mn in sales milestones, in addition to royalties, for Japanese commercialization rights to MultiStem, Athersys' off-the-shelf regenerative therapy currently undergoing a Phase 2 trial for stroke recovery.

\$5mn Private placement raises international exposure, capitalizes Cynata through 2016E

We were pleased to see Cynata bolster its balance sheet with the recent \$5mn private placement to US-based institutional investors in a transaction led by HC Wainwright. Completed in July 2015, the raise should enable the company to pursue strategic partner negotiations and initial pre-clinical evaluations of the efficacy of MSCs produced with the Cymerus™ technology in graft-versus-host disease and fibrotic lung disease without the pressure to raise additional capital. The additional capital should also allow the company to investigate the potential utility of its Cymerus process in the newly emerging field of MSC engineering, which is showing promise in enhancing the efficacy of MSCs in cancer and other diseases. We also find it significant that Cynata was successful in raising US-based institutional capital. Although shares currently trade on the ASX, we believe the company plans to evaluate potential dual-listing options, perhaps including an ADR. In our estimation a US listing would be a positive potential catalyst for the company, as it would increase Cynata's international exposure and expand the potential investor base to include US institutions that are restricted from investing on the ASX. Moreover, the increased exposure in the US market may improve the company's industry prestige and raise its profile as it pursues partnership opportunities to apply its proprietary technology in the promising area of cell-based cancer therapy.



Following the 6.67mn share offering, Cynata now has 72.7m shares outstanding, and including the proceeds as well as existing cash on the balance sheet at the end of 2Q15, we estimate the company's deal-adjusted cash balance to be \$9.7mn. Following our conversations with management we estimate the raise will provide funding through the end of 2016E. We note that Cynata's recent capital raise includes options for investors to purchase an additional 6.6mn shares with strike prices above recent market prices (3.3mn shares at \$0.80 and 3.3mn shares at \$1.00 per share) – potentially serving as an additional source of funding in the future.

COMPETITIVE LANDSCAPE

Cynata operates in the large and competitive global biotechnology industry. The global biotechnology industry is a highly regulated industry that typically requires significant time and capital investment to bring new therapeutic products and medical devices into commercialization. Because of the time and cost of developing new therapeutic products, the industry includes several large multi-national pharmaceutical companies, which are better able to finance and navigate the varied regulatory approval processes to market therapeutic products in different parts of the world. These large corporations have a structural advantage versus smaller companies due to their established sales distribution, well-known brands, and access to deep financial resources and large research facilities.

Although Cynata is a relatively small company in the Biotechnology industry, the company is pursuing a cogent strategy focused on leveraging its proprietary technology and intellectual property. The company's method for manufacturing MSC stem cells appears to be more efficient, scalable, and cost-effective method than alternative production methods. Cynata management believes its primary competitive advantage is that its proprietary manufacturing process produces vibrant, robust stem cells from one source, with infinite scalability. In contrast, most competing MSC stem cell manufacturing methods rely on donor-derived material, which faces costly issues associated with scalability, invasive procedures such as bone marrow aspiration, and higher regulatory barriers resulting from the fact that multiple donors are likely to be used in therapeutic product development. Moreover, recent efforts to continuously expand adult stem cells from a single donor have suggested that the cells become less vigorous as they expand, ultimately degrading their effectiveness. The following table, provided by the company, provides a detailed overview of the advantages of Cymerus™ over conventional processes of producing MSCs.

Figure 2. Advantages of Cymerus™ versus conventional donor-derived MSCs

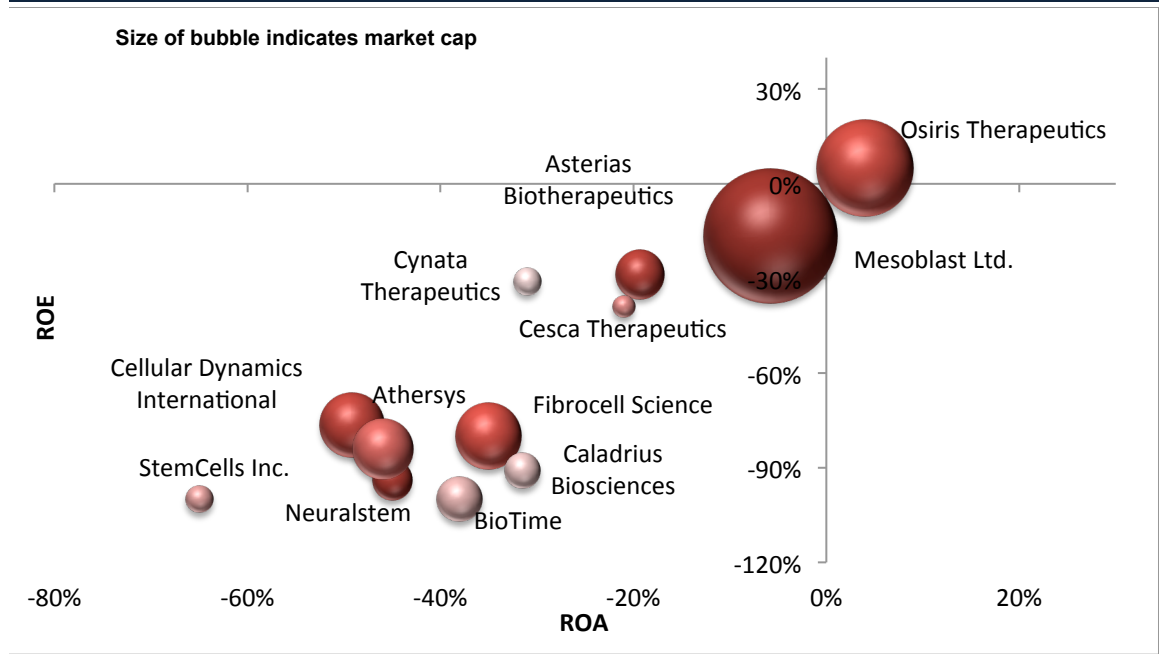
	Conventional Processes	Cymerus™ Process
Product	Therapeutic MSC	Therapeutic MSC
Donors	Continuous supply of new donors required	One donor, one time
Source tissue	Bone marrow, adipose tissue, placenta, etc	Clinical grade induced pluripotent stem cell (iPSC)
Comparability testing	Required every time a new donation is used	Not applicable
Number of clinical doses per donation	Possibly up to tens of thousands	Effectively limitless
Extent of MSC expansion	High (25-40 population doublings)	Low (10 population doublings)
Cellular “age”	Variable	Low – iPSC-derived MSCs are more primitive
Risk of contamination with off-target cell types	Medium to high, depending on process	Negligible
Manufacturing Cost	Very high	Modest

Source: Company, SeeThruEquity Research

We also considered the relative profitability and scale of investment of Cynata versus peers in its industry. In the following graphic we examined key size and profitability metrics for a group of publicly traded companies with a focus on developing therapeutic products by using stem cell and/or regenerative technology, including Mesoblast

Ltd. (MSX.AX), Athersys (ATHX), and Asterias Biotherapeutics, among others. As the graphic illustrates, the scale of Cynata's investment in development prior to revenue generation seems in line with peers. Indeed, it is not uncommon for early and mid-stage peers in the industry to have negative profitability as they invest in research and development and costs associated with conducting clinical trials or other endeavors to achieve regulatory approval to market their products.

Figure 3. ROA vs. EBIT- CYT Peers



Source: Thompson Financial, Company filings, SeeThruEquity Research

FINANCIALS AND FUTURE OUTLOOK

Revenue drivers / Assumptions

Cynata is a development stage company that has not commenced commercial operations. We have assumed the company will pursue commercial activity for its Cymerus™ stem cell technology platform through the formation of strategic partnerships with pharmaceutical corporations, which should enable the company to generate initial revenues through licensing payments. Although the company has not yet announced its first strategic partnerships, company management has stated publicly that it is in discussions with multiple corporations and that it expects to announce an initial partnership by the end of calendar 2015.

Although it is possible that Cynata will recognize license revenues from a strategic partnership during calendar, we have taken a more conservative approach in our analysis and assumed the company announces its first partnership by the end of calendar 2015 with initial revenues in calendar 2016E. We have assumed the company pursues strategic partnerships that are structured as licensing and royalty agreements and categorized by therapeutic indication, including applications for heart disease, stroke, and cancer. As such, we have modeled initial licensing fees with potential research and development milestone payments periodically through initial commercialization, with royalty fees thereafter.

Broadly, our model assumes a successful outcome for Cynata and its partners, and we then apply a probability discount to our forecast in considering the valuation and price target. We view Cynata has having vast potential if the company executes. Indeed, the potential promised by management Cymerus™ appears to have game-changing implications for the global stem cell industry – a market projected to approach \$120Bn by 2019E by Transparent Market Research (TMR). We considered three potential indications for Cymerus™ including stroke, cancer, and heart disease, with pre-clinical studies in 2016E, 2017E and 2018E. We modeled our assumptions after comparable deals in the space, such as the partnership between Japan-based Chugai and Athersys, in which Athersys will receive a \$10mn upfront license payment, up to \$45mn in development and regulatory milestones, and \$150mn in potential sales milestones, in addition to royalties, for Japanese commercialization rights to its flagship MultiStem line for stroke recovery. Given that Athersys is farther along in the regulatory clearance process, we made more conservative assumptions for Cynata for each indication. For example, we assumed a \$5mn initial license fee and the realization of \$15mn to \$20mn in development and regulatory milestones, plus royalties. We assumed commercialization commences for the company's partners in 2024E - 2025E.

Margins/Expenses

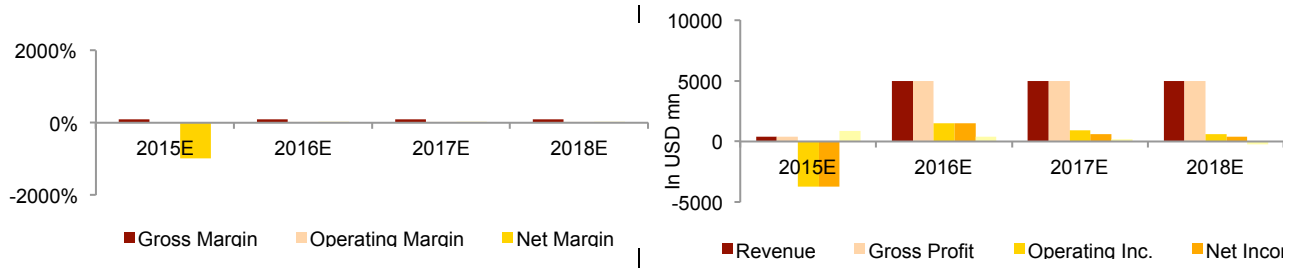
We expect Cynata to have attractive profit margins as the business scales because the company's license, royalty and milestone payments do not carry a cost of goods sold. We have forecast the company to invest in development during 2015E and 2016E to fund its clinical study for GvHD to demonstrate proof of concept for Cymerus™, as well as providing support for the company's collaboration with the University of Sydney to evaluate Cymerus™ MSCs for heart disease – a study which could prove vital in later commercial partner efforts.

Our 2015E GAAP basic EPS estimate is \$0.02, which assumes the company has secured a partnership by the end of calendar 2015 and recognizes revenue in FY16E.

Balance Sheet & Financial Liquidity

Cynata has a reasonably strong balance sheet which should insulate the company from financial pressures while it seeks strategic development partners and proceeds with its planning for its Phase I clinical study of Cymerus™ MSCs for GvHD. The company raised \$5mn in an equity-based private placement in July, leaving Cynata with an estimated cash balance of \$9.7mn, adjusting for cash on the balance sheet at the end of FY2015. The company used cash of \$2.6mn in operations over the twelve months ending June 30, 2015.

Figure 4. Key Performance Indicators of CYP, FY15E-18E



Source: Company filings, SeeThruEquity Research, \$AUD unless noted

VALUATION

We utilize discounted cash flow (DCF) and peer company analysis to value Cynata. Given the pre-commercialization status of Cynata, as well as the long time horizon for bringing new therapeutic products to market, we placed a more significant weighting on our discounted cash flow valuation than the peer company valuation. In our view, given the bold goal of revolutionizing production methods in the large and rapidly growing stem cell industry, the company has the potential to achieve a valuation significantly higher than our analysis if the company executes its growth and operating plans and Cymerus™, or a future iteration of Cymerus™ emerges as the industry standard technology platform for industrial production of MSCs. Moreover, given transactions in the space such as FujiFilm's acquisition of Cellular Dynamics for \$307mn, there is clearly the potential for a higher valuation if Cynata attracts the interest of a strategic partner. Given the company's current stage as an intriguing pre-commercialization business, however, there remain considerable risks to growth and execution. Considering all of these factors our valuation yields a fair value of \$1.55 per share, representing potential upside of 229.8% to the recent price of \$0.47.

DCF

Currently Cynata is a pre-commercial company. Management has indicated it is in partnership discussions with potential partners, which we have assumed will be structured as a license and royalty agreement with milestone payments for development and regulatory accomplishments. The following DCF assumes three such deals, with initial \$5mn license payments being recognized between 2016E – 2018E, and \$15mn-\$20mn of milestone and development payments for each indication. We discounted cash flows at a weighted average cost of capital of 15.2% and assumed a terminal growth rate of 5% at the end of FY2025E to arrive at an enterprise value of \$116.9mn. We adjusted for estimated cash on hand of \$9.7mn, arriving at a fair value of \$1.74 per share.

Figure 5. Discounted Cash Flow Analysis

\$AUD	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E
Stroke		IND	Phase 1/II	Phase 1/III	Phase 2	Phase 2	Phase 3	Phase 3	FDA	Comm.	Comm.
Heart Disease		Pre-clinical	Pre-clinical	IND	Phase 1/II	Phase 2	Phase 2	Phase 3	Phase 3	FDA	Comm.
Cancer		Pre-clinical	Pre-clinical	IND	Phase 1/II	Phase 2	Phase 2	Phase 3	Phase 3	FDA	Comm.
EBIT	(3,712,077)	1,499,600	919,600	617,800	(700)	4,508,800	(651,600)	(1,002,100)	3,277,550	755,182	5,252,212
Less: Tax	-	-	312,664	210,052	(238)	1,532,992	(221,544)	(340,714)	1,114,367	256,762	1,785,752
NOPLAT	(3,712,077)	1,499,600	606,936	407,748	(462)	2,975,808	(430,056)	(661,386)	2,163,183	498,420	3,466,460
Changes in working capital	-	(540,643)	(104,049)	(127,437)	(155,175)	(189,120)	(229,818)	(279,049)	(336,667)	2,147,584	22,920
Depreciation & Amortization	-	400	400	600	700	1,200	1,600	2,100	2,450	3,000	3,300
Capex	-	(100,000)	(102,000)	(104,040)	(106,121)	(108,243)	(110,408)	(112,616)	(114,869)	(117,166)	(119,509)
FCFF	(3,712,077)	859,357	401,287	176,871	(261,058)	2,679,645	(768,682)	(1,050,952)	1,714,098	2,531,839	3,373,171
Discount factor	1.0	0.9	0.8	0.7	0.6	0.5	0.4	0.4	0.3	0.3	0.2
Probability Factor	N/A	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%	31.0%
Probability-weighted PV of FCFE	(3,712,077)	235,411	95,424	36,509	(46,777)	416,794	(103,786)	(123,175)	174,390	223,599	258,595
Sum of PV of FCFE											(2,545,092)
Terminal cash flow											10,764,385
PV: Terminal cash flow											2,662,007
Enterprise value											116,914
Less: Debt											0
Add: Cash											9,700
Equity value											126,614
Outstanding shares (mn)											72.7
Fair Value per share											1.74

Source: SeeThruEquity Research, \$AUD unless indicated

Summary conclusions	Key assumptions	
DCF FV (\$ per share)	1.74	Beta 1.2
Recent price (\$ per share)	0.47	Cost of equity 15.2%
Upside (downside)	270.6%	Cost of debt (post tax) 9.0%
WACC	15.2%	Terminal Growth Rate 5.0%

Source: SeeThruEquity Research, \$AUD unless indicated

Figure 6. Sensitivity of Valuation – WACC vs. Terminal Growth Rate

		WACC (%)				
		14.2%	14.7%	15.2%	15.7%	16.2%
Terminal growth rate (%)	4.00%	5.50	1.63	-1.85	-4.98	-7.81
	4.50%	7.73	3.58	-0.14	-3.47	-6.48
	5.00%	10.22	5.73	1.74	-1.83	-5.04
	5.50%	12.98	8.12	3.81	-0.02	-3.45
	6.00%	16.08	10.78	6.11	1.97	-1.71
	6.50%	19.59	13.76	8.67	4.18	0.20

Source: SeeThruEquity Research, \$AUD unless indicated

Peer Group Valuation

We also considered the valuation of Cynata in relation to the valuation of industry peers. Our peer group valuation examines the company relative to a group of peer companies in the stem cell and/or regenerative medicine industry. Given that the majority of the peer group is unprofitable at this stage of development, we examined the companies on the basis of estimated revenue in relation to value.

We selected a peer group of companies whose businesses are focused on developing therapeutic products from the use of stem cells and/or regenerative medicine. We note that there is a wide range of valuation multiples among the peer group, which we believe is the result of company and therapy-specific prospects and each company's stage of development. Our peer group includes Mesoblast Ltd. (MSB.AX), Asterias Biotherapeutics (AST), Athersys (ATHX), and NeuralStem (CUR), among others. Our peer group valuation considered 2016E estimated license payments of \$5mn for Cynata, which assumes the company completes a strategic licensing partnership. Our peer group analysis considers an average EV/Revenue and P/Revenue multiple for 2016E revenue of 10.1x and 11.8x. Assuming Cynata is able to strike a strategic licensing partnership with an initial payment \$5mn payable in 2016E, the multiples would imply a valuation range of \$0.81 - \$0.83, representing potential upside of 73%-77% compared to the recent price of \$0.47. We note that our peer average excludes Fibrocell, Neuralstem, and StemCells, Inc., for comparability.

Figure 8. Comparable Valuation (Data as of 8/19/15)

Company	Mkt cap (\$ mn)	EV/Revenue(x)		Price/Sales (x)	
		FY15E	FY16E	FY15E	FY16E
Mesoblast Ltd.*	1,133	12.9x	7.0x	14.6x	7.9x
Asterias Biotherapeutics	148	38.5x	41.0x	44.8x	47.7x
Athersys	100	14.7x	7.8x	22.5x	11.9x
Cellular Dynamics International	261	11.4x	7.9x	9.7x	6.7x
Osiris Therapeutics	599	5.7x	4.4x	6.1x	4.8x
BioTime	226	N/A	N/A	N/A	N/A
Cesca Therapeutics	29	1.4x	1.4x	1.7x	1.6x
StemCells Inc.	46	1608.3x	1378.6x	383.5x	328.7x
Neuralstem	127	10640.0x	10640.0x	12670.0x	12670.0x
Caladrius Biosciences	78	2.8x	1.6x	3.9x	2.2x
Fibrocell Science	275	548.9x	588.1x	610.6x	654.2x
Average**		12.5x	10.1x	14.8x	11.8x
Cynata Therapeutics*	44	N/A	6.8x	N/A	8.7x
<i>Premium (discount)</i>		<i>N/A</i>	<i>(33.0%)</i>	<i>N/A</i>	<i>(26.2%)</i>

Source: Bloomberg, SeeThruEquity Research, CYP and Mesoblast Ltd. data in \$AUD, Average excludes Fibrocell, Neuralstem, and StemCells, Inc.

RISK CONSIDERATIONS

Development stage biotechnology company

Cynata is a development-stage biotechnology company. The company has not yet generated material revenues from commercialization of its stem cell products, and is in the early stages of its corporate development. The analysis in this report has had to make assumptions about the size, timing and profitability of Cynata revenues. There is always uncertainty related to predicting future results, but it is more difficult to forecast results for development stage companies given that there are no historical revenues to incorporate into the financial model.

Partnership risk

Cynata has not yet completed any clinical trials required to achieve regulatory clearance to sell its products in the United States, Europe, Asia, Australia, or any other region. The company has outlined a strategy to seek strategic partnerships as a means of generating initial revenues over the next twelve months. Although we expect the company to pursue commercialization through strategic partnerships with larger pharmaceutical industry participants, Cynata has not announced any partnerships to date, and any potential partnerships struck by the company may not be as large or as profitable as we have assumed in our analysis. Further, if the company fails to strike a partnership, it may not be able to generate material revenues from its stem cell products for a prolonged period, if ever, do to the cost and time constraints inherent in achieving regulatory approval for new therapeutic products.

Execution risk

Cynata is focused on commercializing a new stem cell manufacturing technology. Although the company believes its technology and proprietary process will be more scalable and economical than alternative methods of manufacturing MSC stem cells, the company has not yet begin production in large scale, and may find that some of management's assumptions about the scalability and cost of its manufacturing process are not realized.

Regulatory Risk

Cynata operates in an industry with heavy regulation. The company is likely to be required to conduct clinical trials as part of the process to seek regulatory approval for its products, which can be time consuming and costly. There is no guarantee that the company's proprietary MSC stem cell manufacturing process will ever be cleared by regulatory bodies in the United States, Europe, or Asia.

Financial Solvency

Although Cynata recently completed a capital raise, which management believes should provide 1.5 years of liquidity for the company, we note that the company will likely need to raise additional capital during 2016E or 2017E either through the issuance of equity or through industry strategic partnerships.

Dilution potential

We expect Cynata may need to raise fresh capital by the end of 2016E or 2017E to fund the continued development of its proprietary MSC stem cell manufacturing platform and to complete clinical trials demonstrating the efficacy and scalability of its stem cell manufacturing technology. We expect the company will use equity-based instruments to raise capital, including the issuance of common equity, preferred equity, options and/or warrants, among others. While the exercise of warrants would provide funding to the company, holders of common equity may have their positions diluted over time as the company raises new capital.

Management Team

Dr. Stewart Washer, Executive Chairman

Dr. Stewart Washer has 20 years of CEO and Board experience in medical technology, biotech and agrifood companies. He is currently the Chairman of Orthocell Ltd, who culture tendon cells to repair damaged tendons, Chairman of Cynata Therapeutics Ltd (ASX:CYP) who are developing stem cell therapies and Chairman of Minomic International Ltd who have an accurate non-invasive test for prostate cancer.

Dr. Washer was previously the CEO of Calzada Ltd (ASX:CZD), the founding CEO of Phylogica Ltd (ASX:PYC) and before this, he was CEO of Celentis and managed the commercialisation of intellectual property from AgResearch in New Zealand with 650 Scientists and \$130m revenues. He was also a founder of a NZ\$120m New Zealand based life science fund and Venture Partner with the Swiss based Inventages Nestlé Fund. He is currently Investment Director with Bioscience Managers.

Dr. Washer has held a number of Board positions in the past as the Chairman of iSonea Ltd (ASX:ISN), Resonance Health Ltd (ASX:RHT) and Hatchtech Pty Ltd, a Director of iCeutica Pty Ltd, Immuron Ltd (ASX:IMC) and AusBiotech Ltd. He was also a Senator with Murdoch University and is currently the Chairman of Firefly Health.

Dr. Ross Macdonald, Managing Director and Chief Executive Officer

Dr. Macdonald has over 20 years' experience and a track record of success in pharmaceutical and biotechnology businesses. His career history includes positions as Chief Executive Officer of Hatchtech Pty Ltd, Vice President of Business Development for Sinclair Pharmaceuticals Ltd, a UK-based specialty pharmaceuticals company, Vice President of Business Development for Connetics Corporation (Palo Alto, CA), and Vice President, Corporate Development for Stiefel Laboratories Inc, the largest independent dermatology company in the world and acquired by Glaxo Smith Kline in 2009 for £2.25b. Dr. Macdonald has also served as Vice President of Research and Development of F H Faulding & Co Ltd and CEO of Living Cell Technologies Ltd. His other positions have included non-executive director roles at iSonea Ltd, Telesso Technologies Ltd, Hatchtech Pty Ltd and Relevare Pharmaceuticals Ltd. Dr Macdonald currently serves as a member of the Investment Committee of UniSeed Management Pty Ltd. Dr Macdonald holds a PhD in Biochemistry, Monash University, a Graduate Diploma in Business Administration, Swinburne University, and he is a member of the Licensing Executives Society.

Dr. Kilian Kelly, Vice President, Product Development

Dr. Kilian Kelly has approximately 15 years' experience in pharmaceutical/biotechnology research and development, in both commercial and academic settings. His previous appointments include Senior Director, Drug Development at Biota Pharmaceuticals (NASDAQ: BOTA), Vice President, Regulatory and Clinical at Mesoblast Limited (ASX:MSB), and various regulatory affairs and project management positions with Kendle International (now INC Research), Amgen (NASDAQ: AMGN) and Astrazeneca (LSE: AZN). Dr Kelly holds a Masters in Pharmacy from Robert Gordon University, Aberdeen and a PhD in Pharmaceutical Sciences from Strathclyde University, Glasgow. He is a registered pharmacist and a member of the Royal Pharmaceutical Society, The Organisation for Professionals in Regulatory Affairs (TOPRA) and the Regulatory Affairs Professionals Society (RAPS).

Scientific Advisory Board

Dr. Ian Dixon, Scientific Advisory Board (SAB) Chairman

Dr. Ian Dixon has more than 20 years' experience in the biotechnology and medical device industries. He is the founder/co-founder of numerous successful technology companies, including Cynata, Genscreen Pty Ltd and Okedro Pty Ltd. He was previously a non-executive Director of Cell Therapies Pty Ltd, a leader in GMP cell manufacture for human use and Director of the Product Group at Invetech, which is now part of Danaher Corporation (NYSE: DHR). Dr. Dixon holds a PhD in Biomedical Engineering from Monash University, and an MBA and professional engineering qualifications from Swinburne University. He is a member of the Australian Institute of Company Directors, the International Society for Cellular Therapy and the International Society for Stem Cell Research.

Professor Igor Slukvin, SAB Member

Igor Slukvin is Professor of Pathology and Laboratory Medicine at the University of Wisconsin-Madison, School of Medicine and Public Health. His research program focuses on development of hematopoietic, vascular and mesenchymal lineages from human pluripotent stem cells. His work identified several novel progenitors for blood, endothelial and mesenchymal stem cells, including mesenchymoangioblasts (MCAs), a common precursor for endothelial and mesenchymal stem cells. Professor Slukvin received his MD and PhD from Kiev Medical University, Ukraine, and completed postdoctoral and medical residency training at the University of Wisconsin. He has published over 70 peer reviewed research papers and serves on several editorial boards. Professor Slukvin holds key patents in the area of haematovascular cell production from human pluripotent stem cells, several of which form the core of the Company's intellectual property portfolio, and is a co-founder of Cynata and Cellular Dynamics International (NASDAQ: ICEL).

FINANCIAL SUMMARY

Figure 8. Income Statement

Figures in \$AUDmn unless specified	FY13A	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue	0.0	0.0	0.0	5.0	5.0	5.0
YoY growth	NM	NM	NM	NM	0.0%	0.0%
Cost of Sales	0.0	0.0	0.0	0.0	0.0	0.0
Gross Profit	(0.8)	0.0	0.0	5.0	5.0	5.0
Margin	NM	NM	NM	100.0%	100.0%	100.0%
Operating expenses	0.9	3.1	3.2	3.5	4.1	4.4
EBIT	(0.8)	(3.1)	(3.2)	1.5	0.9	0.6
Margin	NM	NM	NM	30.0%	18.4%	12.4%
EBITDA	(0.8)	(3.1)	(3.2)	1.5	0.9	0.6
Margin	NM	NM	NM	30.0%	18.4%	12.4%
Other income/ (expense)	(0.1)	0.1	0.1	0.1	0.0	0.0
Profit before tax	(0.9)	(3.0)	(3.1)	1.6	0.9	0.6
Tax	0.0	0.0	0.0	0.0	0.3	0.2
Net income	(0.9)	(3.0)	(3.1)	1.6	0.6	0.4
Margin	NM	NM	NM	32.0%	12.1%	8.2%
EPS (per share)	(0.04)	(0.07)	(0.06)	0.02	0.01	0.01

Source: SeeThruEquity Research, \$AUD unless noted

Figure 9. Balance Sheet

Figures in \$AUDmn, unless specified	FY13A	FY14A	FY15A	FY16E	FY17E	FY18E
Current assets	1.1	5.1	4.8	11.2	12.2	13.0
Other assets	0.6	4.8	4.4	4.5	4.6	4.7
Total assets	1.8	9.9	9.1	15.7	16.8	17.7
Current liabilities	0.1	0.1	0.4	0.4	0.4	0.4
Other liabilities	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity	1.6	9.9	8.7	15.3	16.4	17.3
Total liab and shareholder equity	1.8	9.9	9.1	15.7	16.8	17.7

Source: SeeThruEquity Research, \$AUD unless noted

Figure 10. Cash Flow Statement

Figures in \$AUDmn, unless specified	FY13A	FY14A	FY15A	FY16E	FY17E	FY18E
Cash from operating activities	(0.8)	(1.9)	(2.6)	1.4	1.0	0.8
Cash from investing activities	(0.8)	(0.1)	0.0	(0.1)	(0.1)	(0.1)
Cash from financing activities	1.6	5.9	2.2	4.6	0.0	0.0
Net inc/(dec) in cash	0.1	4.0	(0.4)	5.9	0.9	0.7
Cash at beginning of the year	1.0	1.1	5.1	4.7	10.6	11.5
Cash at the end of the year	1.1	5.1	4.7	10.6	11.5	12.1

Source: SeeThruEquity Research, \$AUD unless noted

About Cynata Therapeutics Ltd.

Cynata Therapeutics Ltd (ASX: CYP) is an Australian stem cell and regenerative medicine company that is developing a therapeutic stem cell platform technology, Cymerus™, originating from the University of Wisconsin-Madison, a world leader in stem cell research. The proprietary Cymerus™ technology addresses a critical shortcoming in existing methods of production of mesenchymal stem cells (MSCs) for therapeutic use, which is the ability to achieve economic manufacture at commercial scale. Cymerus™ does so through the production of a particular type of MSC precursor, called a mesenchymoangioblast (MCA). The Cymerus™ MCA platform provides a source of MSCs that is independent of donor limitations and provides a potential “off-the-shelf” stem cell platform for therapeutic product use, with a pharmaceutical business model and economies of scale. This has the potential to create a new standard in the emergent arena of stem cell therapeutics and provides both a unique differentiator and an important competitive position.



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