

March 4, 2016

**Strategic Alliance Inked in Japan; Reiterate Buy**

Stock Data		03/03/2016			
Rating		Buy			
Price		A\$0.41			
Exchange		ASX			
Price Target		A\$1.00			
52-Week High		A\$1.33			
52-Week Low		A\$0.23			
Enterprise Value (MM)		A\$21.5			
Market Cap (MM)		A\$29			
Public Market Float (MM)		56.6			
Shares Outstanding (MM)		72.7			
3 Month Avg Volume		215,308			
Balance Sheet Metrics					
Cash (MM)		A\$4.70			
Total Debt (MM)		A\$0.03			
Book Value/Share		A\$0.13			
EPS Diluted					
Full Year - Jun		2014A	2015A	2016E	
1st Half		--	--	(0.02)	
2nd Half		--	--	(0.02)	
FY		(0.07)	(0.06)	(0.07)	
Revenue (M)					
Full Year - Jun		2014A	2015A	2016E	
FY		A\$0.00	A\$0.00	A\$1.00	



**Preliminary agreement signed.** Yesterday, Cynata announced that it had signed an initial agreement with Regience K.K. for Japan and certain other Asian countries, which involves a co-operative arrangement to co-develop and co-commercialize Cynata's proprietary Cymerus™ technology platform for the production of mesenchymal stem cells (MSCs). The agreement involved an upfront purchase of A\$250,000 worth of Cynata common stock at a premium to the current market price. Under the terms of the agreement, Regience and Cynata are to work together in developing the Cymerus™ technology, and Regience may elect to ink an extension to the agreement under which, in exchange for further payment of A \$2.25M, it is to receive a two-year exclusive option to commercialize the Cymerus™ technology in the partnered territories. In the wake of the signing of this agreement, which we believe may portend further additional partnerships in the near future, we reiterate our Buy rating and 12-month price target of A\$1.00 per share on Cynata.

**Favorable economics with respect to stock purchase price.** Regience has a 60-day entitlement to make an initial investment of A \$250,000 in new ordinary shares issued by Cynata, based on a 10-day Volume Weighted Average Price (VWAP) plus 25%, such shares to be subject to a 12-month escrow period from the date of issue. The additional AUD\$2.25M investment if Regience elects to extend the agreement would involve the purchase of new ordinary shares issued by Cynata, based on the same pricing structure and escrow as the initial investment. In our view, Regience's willingness to purchase Cynata shares at a premium constitutes a bullish indicator.

**This is only the beginning, in our view.** From our perspective, this arrangement has significant scope to expand. Regience is entitled to exercise the option in multiple therapeutic areas, but each exercise of the option in a specific therapeutic area would have to be accompanied by a separate exercise fee and, upon execution of a license agreement(s), also by up-front fees, milestones and future royalties on product sales to be negotiated. We note that the Cymerus™ platform constitutes the world's only allogeneic inducible pluripotent stem cell (iPSC)-derived therapeutic technology, which can generate a potentially infinite number of MSCs. If all envisageable options under the Regience agreement were to be exercised, the total amount that could accrue to Cynata from just this partner could amount to hundreds of millions of dollars. We believe that this has positive implications for the global value of the Cymerus™ platform as well, since the Regience relationship is a regional partnership and therefore establishes a floor for the potential value of future transactions that may cover broader geographic territories.

**Valuation methodology and risks.** We have employed a discounted cash flow (DCF)-based approach that assigns a value of ~A \$81M to Cynata's technology platform, based only on collaborations in the cardiology, regenerative medicine and oncology domains. Our valuation translates into a price of A\$1.00 per share, taking into account roughly A\$12M in cash and 90M fully-diluted shares outstanding as of end-2016. Risks that could impede achievement of our price target include, but are not limited to: (i) delays in regulatory clearances for and enrollment in clinical trials; (ii) inability of Cynata to consummate additional strategic partnerships; and (iii) adverse results from studies with Cynata's candidates.

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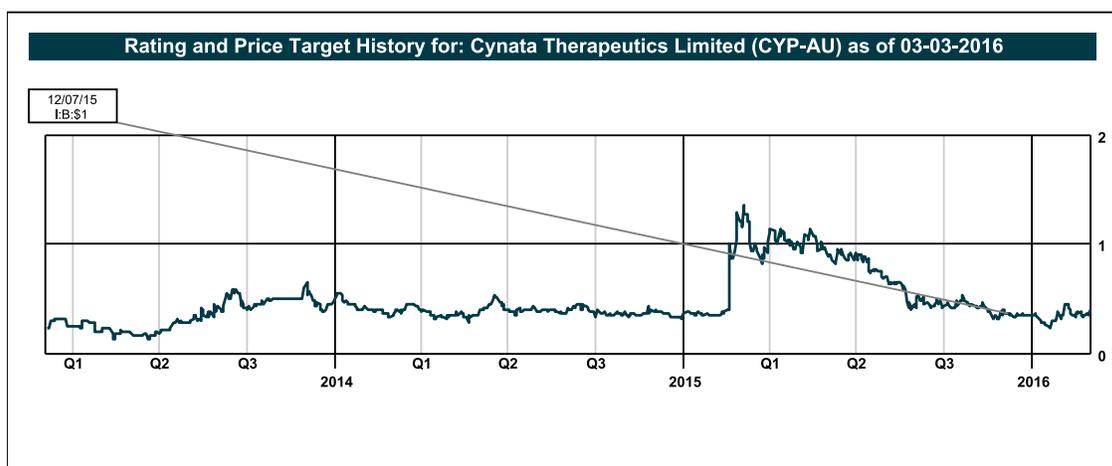
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## RETURN ASSESSMENT

**Market Outperform (Buy):** The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector.

**Market Perform (Neutral):** The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector.

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Distribution of Ratings Table				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	159	97.55%	42	26.42%
Neutral	4	2.45%	2	50.00%
Sell	0	0.00%	0	0.00%
Under Review	0	0.00%	0	0.00%
<b>Total</b>	<b>163</b>	<b>100%</b>	<b>44</b>	<b>26.99%</b>

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