Cynata Therapeutics Limited (CYP-AU)
Rating: Buy

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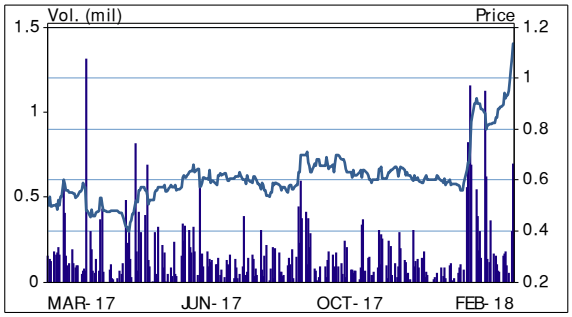
Cohort A Primary Evaluation Period Data Comes up Trumps; Reiterate Buy

Stock Data	02/28/2018
Price	A$1.16
Exchange	ASX
Price Target	A$1.50
52-Week High	A$1.26
52-Week Low	A$0.37
Enterprise Value (M)	A$90
Market Cap (M)	A$102
Public Market Float (M)	68.6
Shares Outstanding (M)	90.1
3 Month Avg Volume	198,631
Balance Sheet Metrics	
Cash (M)	A$11.60
Total Debt (M)	A$0.00
Total Cash/Share	A$0.13
Book Value/Share	A$0.15

EPS Diluted			
Full Year - Jun	2016A	2017E	2018E
1Q	(0.01)	(0.01)A	--
2Q	(0.02)	(0.01)A	(0.04)
3Q	(0.01)	(0.02)A	--
4Q	(0.02)	(0.04)A	(0.06)
FY	(0.06)	(0.06)A	(0.10)



CYP-001 Phase 1/2 trial Cohort A data proves very positive. Cynata announced yesterday that the Primary Evaluation Period has been completed for the first cohort of patients in the trial of its lead Cymerus™ mesenchymal stem cell (MSC) product CYP-001 for treatment of steroid-resistant graft-vs.-host disease (GvHD). Efficacy data following completion of the Primary Evaluation Period (100 days) represents an improvement above the initial results announced in January. In particular, we note the following: (1) overall survival at day 100 was 87.5%; (2) overall response rate by day 100 was 100% (all eight participants showed an improvement in the severity of GvHD by at least one grade compared to baseline); (3) complete response rate by day 100 was 50% (GvHD signs/symptoms completely resolved in four out of eight patients); and (4) no treatment-related serious adverse events or safety concerns were identified during the Primary Evaluation Period. The clinical results from the eight patients in Cohort A after 100 days are especially encouraging, in our view, given the fact that all of these patients had failed to respond to corticosteroid therapy, which is the only currently-approved treatment for GvHD. Patients are considered steroid-resistant when GvHD fails to improve or worsens despite steroid treatment. The prognosis for these patients is extremely poor, with very high mortality rates. The global annual market opportunity for GvHD could reach roughly $500M by 2021, according to a visiongain report. In the wake of this update, we reiterate our Buy rating and 12-month target of A$1.50 on Cynata shares.

Cohort B progress continues. Patient enrollment for Cohort B remains open at seven trial sites in the UK and Australia. The eight subjects in Cohort A received two CYP-001 infusions each at the lower dose level (1M cells/kg, up to a maximum of 100M cells per infusion). In Cohort B, a further eight participants would receive two CYP-001 infusions each at the higher dose level (2M cells/kg, up to a maximum of 200M cells per infusion), for a total of 16 trial subjects.

FUJIFILM option exercise may be the next value inflection point. We believe that the continued release of clinical data showing the promise and potential of CYP-001—and thus the entire Cymerus platform—should impel FUJIFILM to exercise its option to execute an exclusive worldwide license to market CYP-001 in prevention and treatment of GvHD. Total milestone payments under such a license could exceed A$60M, along with double-digit royalties on net sales of CYP-001. FUJIFILM would also bear all future development costs. We believe Cynata's licensee may pull the trigger in the coming months, which would be yet another validating event for Cynata and its technology platform and should accelerate the CYP-001 timeline.

Valuation methodology and risks. We have used a discounted cash flow (DCF)-based approach that assigns a value of A$120M to Cynata, based upon the valuation of the platform on collaboration-based revenue only, with a 10 - 16% royalty rate range and 11% discount rate. Our valuation translates into a price of A$1.50 per share, based on 86M fully-diluted shares outstanding as of end-2018. Risks include, but are not limited to: (1) delays in clinical trial enrollment; (2) inability of Cynata to consummate further strategic partnerships; and (3) adverse results from clinical studies with Cynata's candidates.

Table 5: Cynata Therapeutics, Inc. (CYP.AX) – Historical Income Statements, Financial Projections

FY end December 31
A$ in thousands, except per share data

			2017A				2018E				
	2015A	2016A	1HA	2HA	2017A	1HE		2HE		2018E
Revenue											
Revenue from continuing operations	-	-	- 25	- (25)	-	-	-	-	-	-	-
Other income	375	1,247	- 1,749	- 94	1,843	-	-	-	-	-	-
Total revenue	375	1,247	- 1,774	- 69	1,843	-	-	-	-	-	-
Operating expenses											
Product development and marketing costs	(1,920)	(4,155)	- (1,619)	- (1,853)	(3,473)	-	(2,500)	-	(4,500)	(7,000)	
Employee benefits expenses	(831)	(784)	- (495)	- (538)	(1,033)	-	(600)	-	(600)	(1,200)	
Share based payments expenses	(429)	(238)	- (81)	- (168)	(249)	-	-		-	-	
Depreciation and amortisation expenses	(448)	(281)	- (140)	- (140)	(280)	-	-	-	-	-	
Other operational expenses	(459)	(729)	- (461)	- (902)	(1,362)	-	-	-	-	-	
Total expenses	(4,087)	(6,187)	- (2,796)	- (3,601)	(6,397)	-	(3,100)	-	(5,100)	(8,200)	
Gain (loss) from operations	(3,712)	(4,939)	- (1,021)	- (3,532)	(4,554)	-	(3,100)	-	(5,100)	(8,200)	
Other income (expense)											
Other income (expense)	-	-	- -	- -	-	-	-	-	-	-	
Interest income (expense)	-	-	- -	- -	-	-	-	-	-	-	
Total investment income and other	-	-	- -	- -	-	-	-	-	-	-	
Loss before income tax	(3,712)	(4,939)	- (1,021)	- (3,532)	(4,554)	-	(3,100)	-	(5,100)	(8,200)	
Income tax expense											
Net loss	(3,712)	(4,939)	- (1,021)	- (3,532)	(4,554)	-	(3,100)	-	(5,100)	(8,200)	
Net loss per share (basic) in cents	(0.06)	(0.07)	- (0.01)	- (0.04)	(0.06)	-	(0.04)	-	(0.06)	(0.10)	
Net loss per share (diluted) in cents	(0.06)	(0.07)	- (0.01)	- (0.04)	(0.06)	-	(0.04)	-	(0.06)	(0.10)	
Weighted average number of shares outstanding (basic)	60,655	72,447	72,955	80,061	80,061	80,111	80,161	80,211	87,761	82,061	
Weighted average number of shares outstanding (diluted)	60,655	72,447	72,955	80,061	80,061	80,111	80,161	80,211	87,761	82,061	

Source: Company reports and H.C. Wainwright & Co. estimates.

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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.

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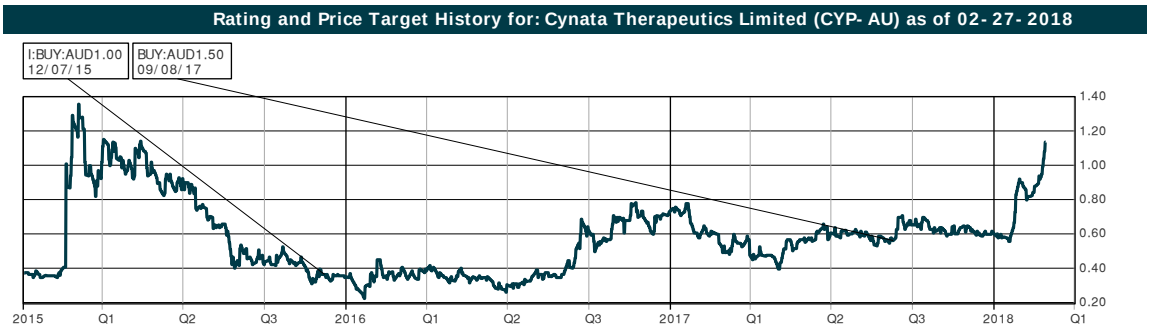

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Distribution of Ratings Table as of February 27, 2018

			IB Service/Past 12 Months	
Ratings	Count	Percent	Count	Percent
Buy	244	92.08%	92	37.70%
Neutral	13	4.91%	3	23.08%
Sell	0	0.00%	0	0.00%
Under Review	8	3.02%	1	12.50%
Total	265	100%	96	36.23%

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