

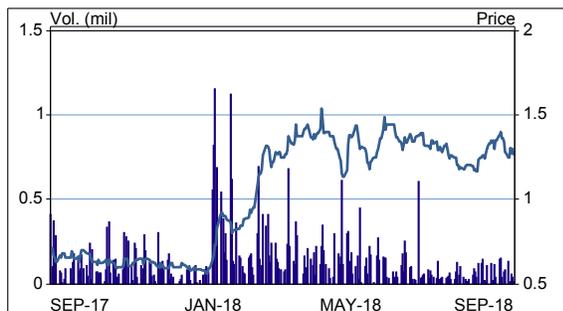
**Cynata Therapeutics Limited (CYP.AX)**  
**Rating: Buy**

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**Recent Developments Underscore Clinical Progress;  
 FUJIFILM May Exercise Option Soon; Raising Target to A\$2**

Stock Data		09/14/2018		
Price		A\$1.27		
Exchange		ASX		
Price Target		A\$2.00		
52-Week High		A\$1.58		
52-Week Low		A\$0.56		
Enterprise Value (M)		A\$109		
Market Cap (M)		A\$121		
Public Market Float (M)		73.4		
Shares Outstanding (M)		96.6		
3 Month Avg Volume		77,850		
Balance Sheet Metrics				
Cash (M)		A\$12.20		
Total Debt (M)		A\$0.00		
Total Cash/Share		A\$0.13		
Book Value/Share		A\$0.16		
EPS Diluted				
Full Year - Jun	2017A	2018A	2019E	
1Q	(0.01)	--	--	
2Q	(0.01)	(0.02)	(0.03)	
3Q	(0.02)	--	--	
4Q	(0.04)	(0.03)	(0.03)	
FY	(0.06)	(0.05)	(0.06)	

**Recent clinical progress encouraging—raising price target.** In our view, multiple recent clinical data catalysts have meaningfully reduced the risk profile of Cynata's lead program and indeed its overall technology platform. Accordingly, we have rolled forward our risk-adjusted net present value (rNPV) valuation and gradually increased the sales trajectory for Cynata's potential future products in cardiology, autoimmune disease and oncology, while marginally increasing the probability of success to 85% from the prior 80%. This increases the projected valuation to A\$190M from the previous A\$120M, factoring in a slight decrease in the value of the Australian dollar vs. the U.S. dollar. We thus reiterate our Buy rating and raise our 12-month target price to A\$2.00 from the previous A\$1.50 per share. Our fully-diluted projected share count of 103M shares factors in the most recently-reported total shares outstanding of 96.6M common shares, as well as the exercise of 2M options and approximately 4M warrants.

**CYP-001 trial meets all endpoints.** CYP-001, Cynata's lead Cymerus™ mesenchymal stem cell (MSC) product candidate, met all clinical endpoints in a Phase 1 trial for the treatment of steroid-resistant acute graft-versus-host disease (GvHD). In a patient analysis at the 100-day time point in Cohort B of the trial, which received the high-dose treatment, CYP-001 showed positive safety and efficacy data consistent with day 100 data from the lower-dose Cohort A and an earlier evaluation of Cohort B at the 28-day time point. This data analysis marks the completion of the primary evaluation period for all patients enrolled in the Phase 1 trial. We note that the overall response rate by Day 100 was 93%, as 14 out of 15 patients showed an improvement in GvHD severity by at least one grade compared to baseline. The complete response rate by Day 100 was 53%; GvHD signs and symptoms completely resolved in eight out of 15 treated patients. Overall survival at Day 100 was at least 87%. The safety profile of CYP-001 was also encouraging, as no treatment-related serious adverse events (SAEs) or safety concerns were identified during the primary evaluation period.



**FUJIFILM option exercise may be the next value inflection point.** We believe that the clinical proof-of-concept data seen thus far with CYP-001—and thus the entire Cymerus platform—could impel FUJIFILM in the near-term 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.

**Valuation methodology and risks.** We have used a discounted cash flow (DCF)-based approach that assigns a value of A\$190M to Cynata, based upon the valuation of the platform on collaboration-based revenue only, with a 12 - 18% royalty rate range vs. the prior 10 - 16% range, along with an 11% discount rate. Our valuation translates into a price objective of roughly A\$2.00 per share, based on 103M fully-diluted shares outstanding as of end-fiscal 2019 (calendar mid-2019). 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 June 30

A\$ in thousands, except per share data

	2016A	2017A	2018A		2018A	2019E		2019E	2020E				
			1HA	2HA		1HE	2HE						
<b>Revenue</b>													
Revenue from continuing operations	-	-	-	77	-	66	143	-	-	-	-		
Other income	1,247	1,843	-	1,375	-	-	1,375	-	-	-	-		
<b>Total revenue</b>	1,247	1,843	-	1,452	-	66	1,518	-	-	-	-		
<b>Operating expenses</b>													
Product development and marketing costs	(4,155)	(3,473)	-	(1,854)	-	(1,366)	(3,221)	-	(2,000)	-	(3,000)	(5,000)	(7,500)
Employee benefits expenses	(784)	(1,033)	-	(373)	-	(487)	(860)	-	(500)	-	(500)	(1,000)	(1,200)
Share based payments expenses	(238)	(249)	-	(202)	-	(73)	(274)	-	-	-	-	-	-
Depreciation and amortisation expenses	(281)	(280)	-	(140)	-	(140)	(280)	-	-	-	-	-	-
Other operational expenses	(729)	(1,362)	-	(699)	-	(750)	(1,449)	-	-	-	-	-	-
<b>Total expenses</b>	(6,187)	(6,397)	-	(3,268)	-	(2,816)	(6,084)	-	(2,500)	-	(3,500)	(6,000)	(8,700)
<b>Gain (loss) from operations</b>	(4,939)	(4,554)	-	(1,816)	-	(2,750)	(4,566)	-	(2,500)	-	(3,500)	(6,000)	(8,700)
<b>Other income (expense)</b>													
Other income (expense)	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest income (expense)	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total investment income and other</b>	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Loss before income tax</b>	(4,939)	(4,554)	-	(1,816)	-	(2,750)	(4,566)	-	(2,500)	-	(3,500)	(6,000)	(8,700)
Income tax expense													
<b>Net loss</b>	(4,939)	(4,554)	-	(1,816)	-	(2,750)	(4,566)	-	(2,500)	-	(3,500)	(6,000)	(8,700)
Net loss per share (basic) in cents	(0.07)	(0.06)	-	(0.02)	-	(0.03)	(0.05)	-	(0.03)	-	(0.03)	(0.06)	(0.09)
Net loss per share (diluted) in cents	(0.07)	(0.06)	-	(0.02)	-	(0.03)	(0.05)	-	(0.03)	-	(0.03)	(0.06)	(0.09)
Weighted average number of shares outstanding (basic)	72,447	80,061	80,111	90,057	90,107	90,601	90,601	95,116	95,887	95,937	100,987	96,982	101,112
Weighted average number of shares outstanding (diluted)	72,447	80,061	80,111	90,057	90,107	90,601	90,601	95,116	95,887	95,937	100,987	96,982	101,112

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

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Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	287	94.10%	113	39.37%
Neutral	15	4.92%	4	26.67%
Sell	1	0.33%	0	0.00%
Under Review	2	0.66%	0	0.00%
<b>Total</b>	<b>305</b>	<b>100%</b>	<b>117</b>	<b>38.36%</b>

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