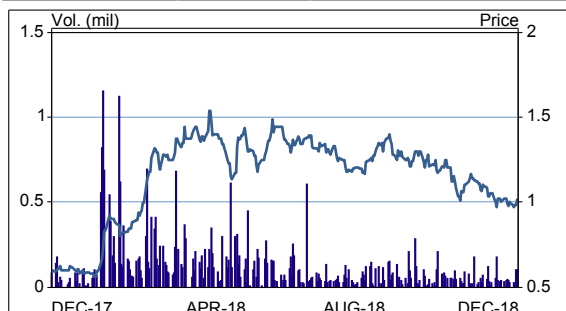


**Cynata Therapeutics Limited (CYP.AX)**  
**Rating: Buy**

Raghuram Selvaraju, Ph.D.  
212-916-3966  
rselvaraju@hcwresearch.com

**Research Funding Awarded; Tax Credits Received; Reiterate Buy**

Stock Data		12/13/2018	
Price		A\$1.02	
Exchange		ASX	
Price Target		A\$2.00	
52-Week High		A\$1.58	
52-Week Low		A\$0.56	
Enterprise Value (M)		A\$90	
Market Cap (M)		A\$102	
Public Market Float (M)		70.6	
Shares Outstanding (M)		100.8	
3 Month Avg Volume		60,322	
Balance Sheet Metrics			
Cash (M)		A\$12.20	
Total Debt (M)		A\$0.00	
Total Cash/Share		A\$0.12	
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)



**Grant authorized to fund Phase 2 osteoarthritis trial.** Yesterday, Cynata announced that the National Health and Medical Research Council (NHMRC) had approved the award of a grant to fund a Phase 2 clinical trial aimed at evaluating Cynata's Cymerus™ mesenchymal stem cells (MSCs) as a treatment for osteoarthritis. This 448-patient study is slated to commence in 2H19. The costs associated with running the trial are being substantially funded by NHMRC, without any cash contribution from Cynata; the company is solely responsible for supplying Cymerus MSCs to facilitate the trial. This study shall be one of the largest MSC trials ever run, representing a breakthrough achievement for Cynata and showcasing its capacity to produce MSCs at scale. Under the terms of the grant receipt, Cynata shall retain full commercial rights to the use of Cymerus MSCs in osteoarthritis, representing a market opportunity forecast to be worth \$11.6B globally by 2025. Osteoarthritis thus becomes the third Phase 2 indication for Cynata, following graft-vs.-host disease (GvHD) and critical limb ischemia (CLI), thus highlighting demand for the company's Cymerus MSCs in multiple indications. Trial will take place in Sydney and Tasmania, and will be managed by a clinical team led by Professor David Hunter of the University of Sydney. In the wake of this announcement, we reiterate our Buy rating and 12-month target of A\$2.00 per share.

**Tax credits received.** Earlier in November, Cynata announced that it had received a A\$1.3M R&D Tax Incentive Refund for the 2017/2018 financial year. This refund augments Cynata's cash position and should extend its operational runway. Cynata continues to secure non-dilutive funding at a steady pace.

**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.

**Phase 1 CYP-001 trial in GvH presented during ASH.** Investors should be aware that the results of the Phase 1 trial of CYP-001 in steroid-resistant acute GvHD were presented at the beginning of this month during the American Society for Hematology (ASH) Meeting in San Diego, CA. As a reminder, this data set showed that four out of eight enrolled subjects (50%) achieved a complete response (CR), which was sustained in all such cases until Day 100. All treated subjects achieved at least a partial response. CYP-001 administered at a  $1 \times 10^6$  MSCs/kg dose was safe and well-tolerated.

(continued on the next page)



H.C. Wainwright 1868

**Recent visit to Australia spotlights Cynata's R&D-centric vision.** We had the opportunity to visit Cynata management in Melbourne last month, and came away impressed by the breadth of the company's R&D initiatives using its proprietary MSCs. Preclinical data published recently in the *FASEB Journal* revealed a therapeutic role for the MSCs in a model of lung fibrosis (ovalbumin challenge), which may have implications for treatment of asthma and other fibrotic conditions, including non-alcoholic steatohepatitis (NASH). In discussions with Prof. Chrishan Samuel at Monash University, the senior author on this paper, we were intrigued by the data obtained using intranasal administration of MSCs, indicating potent anti-fibrotic activity and airway remodeling. We believe that this may indicate potential for Cynata's MSCs in both allergic lung diseases and lung fibrotic disorders, such as idiopathic pulmonary fibrosis (IPF).

**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

			2018A					2019E					
	2016A	2017A	1HA		2HA		2018A	1HE		2HE		2019E	2020E
Revenue													
Revenue from continuing operations	-	-	-	77	-	66	143	-	-	-	-	-	-
Other income	1,247	1,843	-	1,375	-	-	1,375	-	-	-	-	-	-
Total revenue	1,247	1,843	-	1,452	-	66	1,518	-	-	-	-	-	-
Operating expenses													
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)	-	-	-	-	-	-
Total expenses	(6,187)	(6,397)	-	(3,268)	-	(2,816)	(6,084)	-	(2,500)	-	(3,500)	(6,000)	(8,700)
Gain (loss) from operations	(4,939)	(4,554)	-	(1,816)	-	(2,750)	(4,566)	-	(2,500)	-	(3,500)	(6,000)	(8,700)
Other income (expense)	-	-	-	-	-	-	-	-	-	-	-	-	-
Other income (expense)	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest income (expense)	-	-	-	-	-	-	-	-	-	-	-	-	-
Total investment income and other	-	-	-	-	-	-	-	-	-	-	-	-	-
Loss before income tax	(4,939)	(4,554)	-	(1,816)	-	(2,750)	(4,566)	-	(2,500)	-	(3,500)	(6,000)	(8,700)
Income tax expense													
Net loss	(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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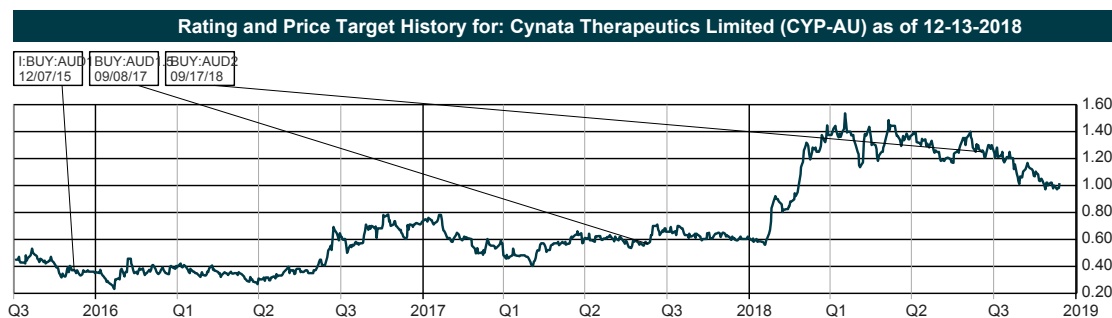
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**Market Outperform (Buy):** The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector.

**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 as of December 13, 2018				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	280	90.03%	113	40.36%
Neutral	18	5.79%	4	22.22%
Sell	1	0.32%	0	0.00%
Under Review	12	3.86%	5	41.67%
<b>Total</b>	<b>311</b>	<b>100%</b>	<b>122</b>	<b>39.23%</b>

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