



BUY \$0.37

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Cytopia (CYT)

In-CYT Into Clinical Program

Company Data

ASX Code	CYT
Price	\$0.37
12 month price target	\$1.00
Implied return	170%

Shares on issue	84.6m
Market capitalisation	\$31.1m
12 Month price range	\$0.32-\$0.74
Monthly turnover (shares)	0.9m

Cash Flow Summary

Yr to 30 June (A\$m)	2007A	2008F	2009F	2010F
License Fees	3.1	4.2	4.2	0
Grants	0.6	0.9	1.1	0
Interest	1.1	0.6	0.3	0
Oper. Cash Inflow	4.8	5.7	5.6	0
Oper. Cash Out	(12.5)	(15.3)	(20.1)	(19.0)
Net Oper Cash	(7.6)	(9.6)	(14.5)	(19.0)
Net Inv. Cashflow	2.8	0	0	0
Net Fin. Cashflow	0	5.0	0	0
Inc/(Dec) Cash	(4.9)	(4.6)	(14.5)	(19.0)
Opening Cash	19.0	14.1	9.6	(4.9)
Closing Cash	14.1	9.6	(4.9)	(23.9)

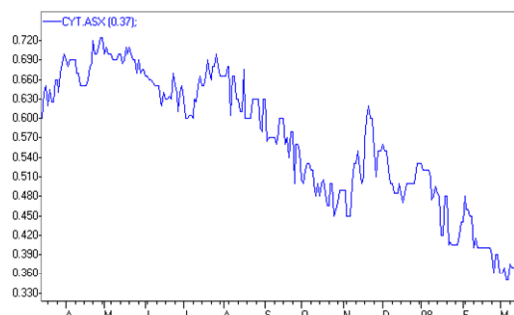
Board of Directors

Robert Watson	Chairman
Andrew Macdonald	MD
Kevin Healy	Non-Exec. Dir.
Roderick Lyle	Non-Exec. Dir.
Mark Rowsthorn	Non-Exec. Dir.
Geoffrey Vaughan	Non-Exec. Dir.

Substantial Shareholders

Mark Rowsthorn	13.8%
Acorn Capital	12.7%
Robert Watson	11.7%
Top 20 Shareholders	57.5%

Share Price Chart



Key Points From Update

Efficacy Studies (Phase-II)

- **Multiple Myeloma:** (a type of blood cancer), 24 patient trial commenced in January 2008. Results from interim analysis (14 patients) scheduled for September 2008.
- **Glioblastoma:** (brain cancer), 25-30 patient trial to commence in 2Q CY08. Complete enrolment expected to take up to 30 months however we would expect an interim analysis
- **Mesothelioma:** (a cancer caused by exposure to asbestos): aim to submit regulatory applications for 20-30 patient trial in 3Q 2008.

Safety Studies (Phase-I)

- **Intravenous Phase-I:** 31 patient dose-escalation trial in advanced cancer patients completed in August 2007 with full results announced in November 2008. Confirmed safety and demonstrated Vascular Disrupting activity in patients
- **Oral Phase-1:** Trial completion estimated for 3Q 2008. Previously trial was expected to complete in 1Q 2008 however one site has withdrawn from the trial due to departure of principal investigator and longer time require to achieve Maximum Tolerated Dose (MTD) due to the excellent safety profile of the drug (doses are progressively increased until a dose is identified that causes toxicities. The safety profile of CYT997 means that no toxicities have been seen at lower doses tested so far)

Preclinical Studies

- The company is undertaking animal studies using CYT997 in combination with standard cytotoxic agents such as 5-Fluorouracil (5FU). The strategy of using Vascular Disrupting Agents to treat cancers is enhanced by weakening the cancer through the VDA, which deprives the tumour of nutrients and oxygen, and then hitting it with a toxic drug.

We reiterate our view that CYT offers substantial value. Based on is December cash balance of \$14.4m, the market is currently valuing the company's intellectual property at around \$17m.

The clinical development program outlined above is only one of the company's assets. In addition to this, CYT has a partnership with Novartis for the development of small molecule inhibitors to the JAK3 target for transplantation and other applications. This partnership provides research funding (up to \$13m over 3 years), potential milestone payments of up to \$260m and royalties on end sales of any drugs development.

The company is also developing small molecule inhibitors for two other validated targets called JAK2 and FMS. The JAK2 inhibitor is particularly interesting as this target is directly responsible for a number of myeloproliferative diseases (MPD) and thus inhibition of this target should have a significant therapeutic impact.

In our view, each of these three programs alone (CYT997, JAK3 with Novartis, and JAK2/FMS) could more than justify the company's current enterprise value. With this in mind, and even taking into account the current unfavourable market conditions, CYT is a standout investment opportunity in the sector.

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Recommendations are assessments of each Lodge Partners Analyst's view of potential total returns over a 1 year period.

Expected total Return is measured as (capital gain (or loss) + dividend)/purchase price

We have divided our recommendations into three main categories:

Buy: Expected Total Return in excess of 15% over a 1 year period.

Hold: Expected Total Return between 0% and 15% over a 1 year period.

Sell: Expected Total Return less than 0% over a 1 year period.

Analyst Verification

I verify that I Matthijs Smith, have prepared this research report accurately and that any financial forecasts and recommendations that are expressed are solely my own personal opinions. In addition, I certify that no part of my compensation is or will be directly or indirectly tied to the specific recommendation or financial forecasts expressed in this report.

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