

RESEARCH REPORT

Kazia Therapeutics

Another Deal – Kazia Inlicences New Anti-Cancer Med From Highly Impressive Partner

Share Price & Estimated Future Price

Price in 12-months* \$2.60

Current Price \$1.48

Implied Increase/Dec +76%

* Price at end FY21/beginning FY22

That is three deals in two-months, with Kazia in-licencing EVT801, an oral, small molecule, first-in-class cancer drug candidate from Evotec SE (FRA:EVT; Market Cap (MC): €5.4b (AUD8.4b). Kazia gained exclusive global rights to the drug for €1m (AUD1.6m) upfront, €308m (AUD480m) in milestones and a tiered single-digit royalty on sales. Evotec, whose corporate strategy precludes taking drugs into the clinic, developed EVT801 with Sanofi (NASDAQ:SNY; MC:USD128.9b (AUD165.7b) meaning the provenance of the compound is impeccable. Kazia has slated EVT801 to start a phase I trial in 2HCY21. Another A+ deal by Kazia in our eyes.

The Molecule: EVT801 is a highly specific inhibitor of vascular endothelial growth factor 3 (VEGFR3). VEGFR3 is one of a family of molecules involved in the growth of blood vessels and lymph vessels. Avastin® (bevacizumab; Roche Hldgs AG), which targets VEGF-A, was and still is a true, breakthrough, blockbuster drug (USD5.5b 2020 sales). Other drugs targeting this family have sales >USD1b. **It is thought EVT801 will kill VEGFR3 expressing tumour cells directly and that it will inhibit lymph vessel formation and a cancer's ability to spread.** It may also alleviate an issue with anti-VEGF-A drugs, which promotes a tumour's ability to gain resistance to the drug. Molecules of the same/similar families often have similar functional regions meaning a drug designed to inhibit one member of a family may also inhibit several others. This means side-effects that can limit a drug's safety, tolerability and sales. This is a real problem with VEGF family targeting drugs. **EVT801, essentially, inhibits VEGFR3 only and is expected to have relatively few side-effects, which would prove highly commercially valuable.** The lymphatic system is also highly associated with the immune system. **Kazia also released data showing that EVT801 acted synergistically with an immune checkpoint inhibitor, the hottest oncology drugs of the last 7-years.**

Phase I Trial: We expect the phase I trial of EVT801 will be an open-label study with several arms (e.g., combining different drugs with EVT801) undertaken in patients with tumours more-likely to respond to EVT801 than others. The study will have a dose escalation phase to find the best dose of EVT801, likely, followed by an expansion phase where Kazia can look for signals of activity in different cancers to determine which cancer(s) are best studied in phase II and how.

Evotec as a Partner: This is one of the best aspects of the deal. Evotec is a substantial global company with 3,500 employees. They are true experts in discovery and preclinical drug development, have a partnering focus, alliances with a who's who of drug companies and >200 development programs. Evotec may not do clinical development, but they do have many capabilities, like clinical trial management, as well as a huge network Kazia can leverage as it develops EVT801. Accordingly, the two companies have agreed to collaborate on EVT801. To a small company like Kazia, this is hugely helpful. Remember, Kazia's success is Evotec's as well and a company like Evotec would not be successful if it did not understand that.

Thoughts on the Deal & Kazia: Kazia has shown the end-to-end success of its core strategy by adding value to in-licenced drugs and coalescing that value by out-licencing them. Paxalisib, Kazia's, lead drug, is in a fully funded phase III program and, while we may see new investigator sponsored studies, its course is set. Moreover, transactions and raisings will see Kazia report a strong cash balance in its next 4C (~mid \$30m).

The time was right for this transaction. Kazia has stuck to its core competency in oncology and it has a chance to build out its internal capabilities, both of which are always nice to see. We assume the deal was done at fair value and will not be raising our target price. As Kazia de-risks EVT801, however, that will not be the case. The deal does diversify Kazia's risk profile, which is good for shareholders with a low exposure to the sector and it should attract new investors who like to see a diversified pipeline.

Conclusion: Price target of \$2.60 maintained

Company Information

ASX Ticker	KZA
NASDAQ Ticker	KZIA
NASDAQ Price	USD10.77
Shares on Issue	126.6m
Fully Diluted Shares on Issue	137.9
Market Capitalisation	\$193.7m
ASX Vol. (Shares/Day)	325k

Cash Sufficiency

	\$ Million
A) Last Appendix 4C	End December 2020
B) Cash & Equivalents at 4C	25.0
C) Burn ¹	-10.0 ^A
D) Quarters Cash Remaining ²	3.1 ^A
E) Estimated Current Q Burn ³	-10.1 ^A
F) Estimated Cash Raised Post 4C ⁴	16.2
G) Estimated Current Cash⁵	31.2
H) Significant Estimated New Commitment(s) ⁶	Phase I Trial of EVT801 (\$5 to \$10m)

A These numbers above are likely to be highly misleading. Q2 FY21 saw large one- expenses related the establishment of the GBM AGILE Trial. The Estimated Current Q Burn could be as much as \$7m overestimated. Similarly, Quarters Cash Remaining could be up to 10

¹ Burn = Net Cash from/used In Operating Activities; ² Quarters Cash Remaining = G/C

³ Equals C * (# Days Since previous Q end Q4 / # Days in Current Q);

⁴ Equals Capital Raising(s) – Estimated Costs + Licencing /Milestones Receipts; ⁵ Equals B – E + F

⁶ Equals estimated maximum new significant commitments that the company has or is likely to become contractually or ethically committed to.

Key Personnel

Mr. Iain Ross	Chairman
Dr. James Garner	MD & CEO
Mr. Bryce Carmine	NED
Mr. Steven Coffey	NED

Share Price Chart



Kazia Therapeutics

Another Deal – Kazia Inlicences New Anti-Cancer Med From Highly Impressive Partner

Kazia Therapeutics (ASX: KZA)

Market Capitalisation: \$193.7m

Valuation Data (AUD Million)

Year Ending Jun	FY20A	FY21E	FY22E	FY23E	FY24E
Profit	(12.5)	(10.1)	(18.3)	(25.0)	14.8
EPS (¢)	(8.2)	(9.9)	(8.0)	(14.5)	(19.8)

Balance Sheet (AUD Million)

Year Ending Jun	FY20A	FY21E	FY22E	FY23E	FY24E
Cash & Equivalents	7.6	13.9	(1.0)	6.3	(8.4)
R&D Tax Rebate	1.4	2.8	2.5	3.4	2.2
Current Assets	9.0	16.7	1.5	9.7	(6.2)
Intangibles	12.4	11.3	10.2	9.2	8.1
Non-Current Assets	12.4	11.3	10.2	9.2	8.1
Total Assets	21.4	28.0	11.8	18.8	1.9
Trade & Other Payables	3.5	5.0	4.7	6.2	4.8
Provisions	0.2	0.2	0.2	0.2	0.2
Contingent Consider.	1.4	1.4	1.4	1.4	1.4
Current Liabilities	5.1	6.6	6.3	7.8	6.4
Deferred Tax	3.4	3.1	2.8	2.6	2.3
Contingent Consider.	0.5	0.6	0.8	1.1	1.5
Non-Current Liabilities	3.9	3.7	3.7	3.7	3.8
Total Liabilities	8.9	10.3	10.0	11.5	10.2
Net Assets	12.5	17.7	1.8	7.3	(8.3)
Contributed Equity	48.8	72.6	72.6	100.8	100.8
Reserves/Other	2.5	1.5	1.5	1.5	1.5
Accumulated Losses	(36.2)	(46.3)	(64.6)	(89.6)	(74.8)
Total Equity	14	28	9	13	27

Profit and Loss (AUD Million)

Year Ending Jun	FY20A	FY21E	FY22E	FY23E	FY24E
Total Revenue	1.0	12.6	2.9	3.2	36.5
R&D Tax Rebate	1.0	1.4	2.8	2.5	3.4
Expenses	(13.8)	(23.0)	(21.5)	(28.5)	(22.0)
EBITDA	(11.8)	(9.5)	(17.6)	(24.4)	15.4
D&A	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
EBIT	(12.9)	(10.6)	(18.7)	(25.5)	14.4
Net Interest	0.1	0.2	0.1	0.2	0.2
Profit - Pre-Tax	(12.8)	(10.4)	(18.6)	(25.3)	14.5
Tax	0.3	0.3	0.3	0.3	0.3
Profit - After-Tax	(12.5)	(10.1)	(18.3)	(25.0)	14.8
Comprehensive Profit	(12.5)	(10.1)	(18.3)	(25.0)	14.8

Cashflow (AUD Million)

Year Ending Jun	FY20A	FY21E	FY22E	FY23E	FY24E
Operating Cashflow	(9.2)	(17.5)	(14.8)	(20.9)	(14.7)
Investing Cashflows	0.0	0.0	0.0	0.0	0.0
Financing cashflows	12.1	23.8	0.0	28.2	0.0
Net Equity Raised	12.1	23.8	0.0	28.2	0.0
ΔCash	2.9	6.3	(14.8)	7.3	(14.7)
Cash	7.6	13.9	(1.0)	6.3	(8.4)

Kazia Therapeutics

Another Deal – Kazia Inlicences New Anti-Cancer Med From Highly Impressive Partner

Corporate Connect Research Pty Ltd Independent Research Report Disclaimer

General disclaimer and copyright

This report ("report" or "Research") has been commissioned by the Company the subject of this report ("Company") and prepared and issued by (Marc Sinatra AR number 1283214) of Corporate Connect Research Pty Ltd ("Corporate Connect Research") (ABN 95640 464 320 – Corporate Authorised Representative (1283214) of Australian Financial Services Licence (AFSL) Number 88045) in consideration of a fee payable by the Company.

Accuracy of content:

All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however Corporate Connect Research does not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified.

Opinions contained in this report represent those of the Analyst of Corporate Connect Research (Marc Sinatra) at the time of publication.

The analyst has received assistance from the Company in preparing this document. The Company has provided the analyst with access to senior management and information on the Company and industry. The Analyst holds/does not hold an economic interest in the securities covered in this report or other securities issued by the subject issuer.

From time to time, Corporate Connect Research's representatives or associates may hold interests, transact or hold directorships in, or perform paid services for, companies mentioned in this report. Corporate Connect Research and its associates, officers, directors and employees, may, from time to time hold securities in the companies referred to in this report and may trade in those securities as principal and in a manner which may be contrary to recommendations mentioned in this report.

As part of due diligence, the analyst has independently and critically reviewed the assistance and information provided by the Company to form the opinions expressed in the report. However, due diligence site visits have not been undertaken at this time. Care has been taken by the analyst to maintain objectivity in preparing this report and making any recommendation. The analyst is responsible for ensuring that this report accurately reflects his or her view of the matters set out in it and that it was prepared in an independent manner.

Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results and estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. This report is prepared as at the date stated in it, and to the maximum extent permitted by law, Corporate Connect Research (on its own behalf and on behalf of the analyst) disclaims any responsibility to inform any recipient of this report of any matter that subsequently comes to its notice which may affect any of the information contained in this report.

Exclusion of liability:

To the fullest extent allowed by law, Corporate Connect Research (on its own behalf and on behalf of the analyst) shall not be liable to any person for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you or any other person arising out or in connection with the access to, use of or reliance on any information contained in this report.

No guarantees or warranties regarding accuracy, completeness or fitness for purpose are provided by Corporate Connect Research (on its own behalf and on behalf of the analyst), and under no circumstances will any of Corporate Connect Research's analysts, representatives, associates or agents be liable for any loss or damage, whether direct, incidental or consequential, caused by reliance on or use of the content.

General Advice Warning

This report and any other Research must not be construed as personal advice or recommendation nor as an inducement to trade the report's named company or any other security. Corporate Connect Research encourages investors to seek independent financial advice regarding the suitability of investments for their individual circumstances and recommends that investments be independently evaluated. Investments involve risks and the value of any investment or income may go down as well as up. Investors may not get back the full amount invested. Past performance is not indicative of future performance. Estimates of future performance are based on assumptions that may not be realised. If provided, and unless otherwise stated, the closing price provided is that of the primary exchange for the issuer's securities or investments. The information contained within the Research is published solely for information purposes and is not a solicitation or offer to buy or sell any financial product or participate in any trading or investment strategy.

Analysis contained within the Research is based upon publicly available information and may include numerous assumptions. Investors should be aware that different assumptions can and do result in materially different results. The Research is distributed only as may be permitted by law. It is not intended for distribution or use by any person or entity located in a jurisdiction where distribution, publication, availability, or use would be prohibited. Corporate Connect Research makes no claim that the Research content may be lawfully viewed or accessed, whether inside or outside of Australia. Access to the Research content may not be legal for certain persons and in certain jurisdictions. If you access this service or content from outside of Australia, you are responsible for compliance with the laws of your jurisdiction and/or the jurisdiction of the third party receiving such content.

Some Research products may also be made available to its clients via third party vendors or distributed through alternative electronic means as a convenience. Such alternative distribution methods are at Corporate Connect Research's discretion.

Access and Use

Any access to or use of the Research is subject to the Terms and Conditions of Corporate Connect Research. By accessing or using the Research you hereby agree to be bound by our Terms and Conditions [<https://corporateconnect.com.au/financialservices-guide/>] and hereby consent to Corporate Connect Research collecting and using your personal data (including cookies) in accordance with our Privacy Policy (<https://corporateconnect.com.au/privacy/>), including for the purpose of a) setting your preferences and b) collecting readership data so Corporate Connect Research may deliver an improved and

Kazia Therapeutics

Another Deal – Kazia Inlicences New Anti-Cancer Med From Highly Impressive Partner

personalised service to you. If you do not agree to our Terms and Conditions and/or if you do not consent to Corporate Connect Research's use of your personal data, please do not access this service.

Copyright of the information contained within the Research (including trademarks and service marks) are the property of the respective owners. The Research, or any portion thereof, may not be republished, reprinted, sold, or redistributed without the prior and written consent of Corporate Connect Research.

Australia

Corporate Connect Research Pty Ltd is a Corporate Authorised Representative (1283214) of PacReef Asset Management Pty Ltd who holds an Australian Financial Services Licence (Number: 488045) which allows Corporate Connect Research to offer financial service advice to wholesale clients. Any advice given by Corporate Connect Research is general advice only and does not consider your personal circumstances, financial situation, needs or objectives. You should, before acting on this advice or making any investment decision or a decision about whether to acquire or dispose of a financial product mentioned in any Research, consider the appropriateness of the advice, having regard to your objectives, financial situation, and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument, and also seek independent financial, legal and taxation advice.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or financial advice, is intended only as a "class service" provided by Corporate Connect Research within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Corporate Connect Research for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Corporate Connect Research relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Corporate Connect Research does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a commendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Sydney

79 Kent St

Millers Point

Sydney NSW 2000

Phone: +61 400 897 559

Email: enquiries@corporateconnect.com.au

<https://www.corporateconnect.com.au/>