First Take

Kazia Therapeutics Limited (KZIA)

April 20, 2021

Price: $10.98; Market Cap (M): $145; *4/19/2021 Close*

Rating: Buy; Price Target: $17.00

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Expanding Pipeline With EVT801 In-License; Reiterate Buy

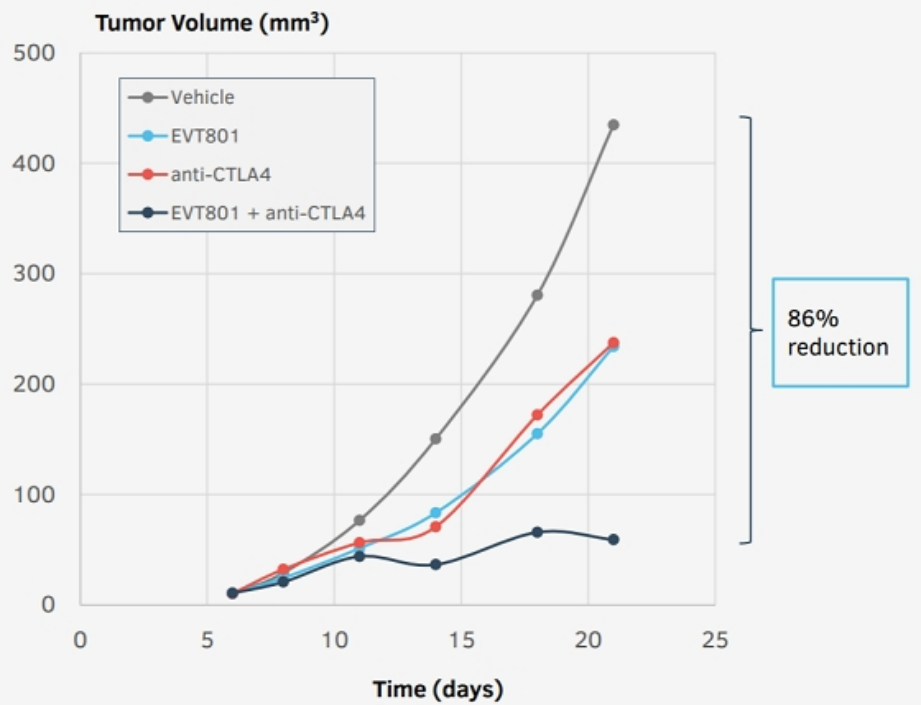
A first-in-class VEGFR3 inhibitor. On April 19, Kazia announced an agreement to in-license the global rights to EVT801, a novel inhibitor of vascular endothelial growth factor receptor 3 (VEGFR3), from Evotec (FRA:EVT; not rated). According to the agreement, the company is expected to pay an upfront of €1M ($1.2M) and development and commercial milestones of up to €308M ($370M), as well as tiered single-digit royalties based on future sales. In our view, the in-licensing of EVT801 marks the start of a new chapter for Kazia and allows the company to continue to create value while the lead paxalisib program is undergoing lengthy pivotal clinical study. According to management, the company intends to bring EVT801 into the clinic by initiating a first-in-human Phase 1 dose-escalation study for the treatment of solid tumors in CY2H21. The study is planned to include both monotherapy and combination immunotherapy arms.

Specific targeting could lead to unique combinations. The VEGF/VEGFR pathway is one of the most well-studied in cancer biology and is the target of several blockbuster drugs such as Avastin marketed by Roche (RHHBY; not rated), Sutent marketed by Pfizer (PFE; not rated), and Nexavar marketed by Bayer (BAYRY; not rated). Unlike these drugs, which tend to target all or several of the VEGFR family of receptors, EVT801 is the only drug currently in development that specifically targets the VEGFR3 receptor and not VEGFR1 or VEGFR2. As a result, we believe EVT801 could trigger tumor cell killing, inhibit lymphangiogenesis, and promote T-cell migration with fewer of the side effects seen in other VEGF/VEGFR inhibitors. In particular, we believe this specific anti-VEGFR3 activity and a cleaner safety profile could allow the drug to be used in combinations with chemotherapy or immunotherapy agents for synergistic effect and without overlapping toxicities. In a mouse pre-clinical study of breast cancer, EVT801 was able to demonstrate synergy when used in combination with an anti-CTLA-4 agent and resulted in an 86% reduction in tumor growth (Exhibit 1). In our view, the combinations of EVT801 plus other immunotherapy agents represent the most promising clinical opportunities for the drug.

Valuation. We maintain our Buy rating of KZIA and our 12-month price target of $17.00 per ADS. We derive our price target based on a risk-adjusted net present value (rNPV) analysis of projected future royalty revenues from paxalisib, assuming an 14% discount rate and a 0% terminal growth rate. We derive an rNPV of A$374M for the product and add in *pro forma* net cash and cash equivalents of A$31M, to arrive at a 12-month price target of $17 per diluted ADS.

Risks: (1) clinical; (2) commercial; (3) financial; (4) partnership; (5) intellectual property; and (6) impact from COVID-19.

Exhibit 1: EVT801 Demostrates Synergistic Activity with Anti-CTLA-4



Source: company presentation, April 2021.

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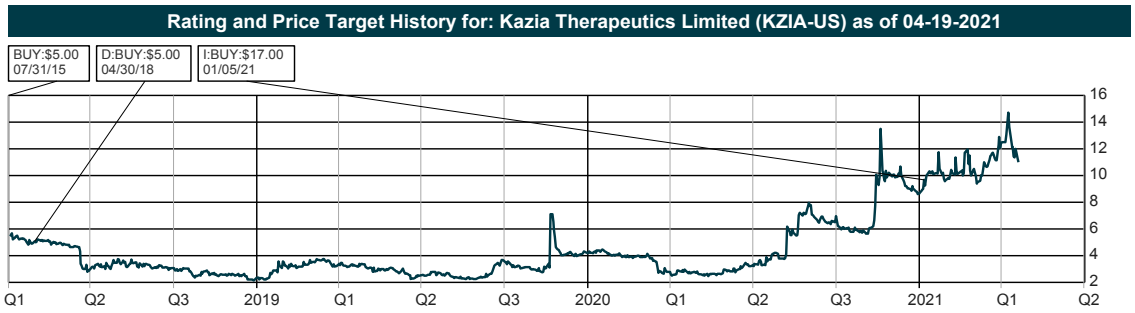

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Distribution of Ratings Table as of April 19, 2021				
			IB Service/Past 12 Months	
Ratings	Count	Percent	Count	Percent
Buy	453	89.00%	190	41.94%
Neutral	54	10.61%	13	24.07%
Sell	0	0.00%	0	0.00%
Under Review	2	0.39%	1	50.00%

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