

# RESEARCH REPORT



## Kazia Therapeutics

Cantrixil licensed To Oasmia Pharmaceuticals & Kazia Shareholders Learn a Positive Lesson About Kazia

Share Price & Estimated Future Price

Price in 12-months\* \$2.25

Current Price \$1.32

Implied Increase/Dec +70%

\* Price at end FY21/beginning FY22

**Kazia Therapeutics has licensed its ovarian cancer drug, Cantrixil, to Swedish drug company Oasmia Therapeutics (STO: OASM) for USD4m upfront, USD42m in milestones and a double-digit royalty on commercial sales. This is a positive event for Kazia and from the stand point of proving its deal making skills to the market.**

**The Event & Interpretation:** The deal is not particularly hard to value in the back of an envelope fashion. Up to the end of phase I, we would expect the upfront payment to be approximately 10% of the overall milestones licensee was willing pay upfront (USD4m), given the stage of the asset (9.7% of total milestones). The next milestones will likely be at the start of a phase II trial and be about USD2.3m (5.5% of total milestones). If Oasmia starts a phase III trial, the milestone payment is likely to be USD9m (21.4%). On FDA licensure, a payment of USD28m (66.6%) is likely. The value of a double-digit royalty is more difficult and rates have varied over the years. A double-digit royalty (likely lower end) is exactly what you would expect for a deal done at this stage of development. Milestones, including upfronts, are thought to roughly represent 30% of the overall deal values in many cases. It would be reasonable to estimate that the Cantrixil deal is worth approximately USD153.3m to Kazia today. The deal structure we have used to assess the Cantrixil license is very general, we don't know if milestones are restricted to the pre-commercialisation stage of the drug's development, we do not know the success probabilities for each milestone used, what the sales assumptions are or, very importantly, the discount rate used (discount rate is very important).

**Oasmia as a Partner:** Oasmia became a public company in July 2010 listing on the Stockholm Stock Exchange (STO). It currently has a market capitalisation of AUD240m. It has one approved drug on the market in the EU, Apealea® (paclitaxel micellar), an ovarian cancer drug. Early this year (2021), Oasmia licensed the global rights for Apealea® to Elevar Therapeutics, an unlisted US company, for USD20m upfront, USD678 in milestones and royalties. Oasmia is looking for Apealea® to gain FDA approval soon. Oasmia's core technology is a platform capable of solubilising hard to solubilise drugs, like paclitaxel and Cantrixil.

Some shareholders may complain that Oasmia is not the major they were hoping Kazia would strike partnership with. Cantrixil, however, is unlikely to become a blockbuster drug and, even if a major were interested it, it would almost certainly receive very little support from the major and ultimately fail. With Oasmia, you have a drug development company specifically with expertise in ovarian cancer, which is highly likely to be useful with a drug like Cantrixil, but, just as importantly, this is a big investment for Oasmia and they are highly leveraged to Cantrixil's success. **Sometimes, maybe even often, a smaller company is better than a major and this deal looks to be a case of that.**

**Implications for Kazia:** While the deal itself is clearly good for Kazia, **the fact they were capable of doing the deal is outstanding and tells investors a lot about Kazia's finishing capabilities.** Frankly, we thought the drug would likely go nowhere. Cantrixil is less than your ideal asset. The drug was developed using very old technologies, is for an off-the-beaten path indication (intraperitoneal metastases from a primary ovarian cancer), has a high degree of uncertainty around its mechanism of action and was developed mainly by Kazia's predecessor, Novogen Limited, a company whose investor/public relations was, by far, its most attractive asset. **Given these points, it is close to a miracle Kazia was able to partner Cantrixil, particularly only four months after the final trial data was released. Subject to the data, investors may see partnering paxalisib, Kazia's primary asset, as a low-risk event.**

**Conclusion:** Given the lack of time to integrate the Cantrixil deal into our model of Kazia, we will temporarily give it a value of USD102.2m, with a 33% penalty since we do not fully understand the assumptions behind the deal and the time value of money. On the other side, an increase in the value of the AUD has negatively impacted our Kazia price target. In the wash-up, **we raise our price target from \$2.05 to \$2.25.**

### Company Information

ASX Ticker	KZA
NASDAQ Ticker	KZIA
NASDAQ Price (10 Shares per ADR)	USD10.60 (a/h) <sup>1</sup>
Shares on Issue	126.6 million
Fully Diluted Shares on Issue	132.5 million
Market Capitalisation	\$165.8 million
ASX Vol. (Shares/Day) <sup>2</sup>	210,787

<sup>1</sup> After Hours Market; <sup>2</sup> Shares per Day for the Last 20 Trading Days.

### Cash Sufficiency

	\$ Million
A) Last Appendix 4C	End December 2020
B) Cash & Equivalents at 4C7	25.0
C) Burn1	-10.0
E) Estimated Current Q Burn2	-6.88
F) Estimated Cash Raised Post 4C3	5.2
D) Quarters (Q) Cash Remaining4	2.308
G) Estimated Current Cash5	23.4
H) Significant Estimated New Commitment(s)6	Nil

Note: The number above are highly misleading. Q2 FY21 saw a large number of one-off expenses mainly related to GBM AGILE. Consequently, Q3 FY21 burn will be much lower (e.g., -\$2.5m to -3.5m), while the burn already accrued in Q3 FY21 is likely around -\$1.6 to -\$2.2m. Thus, we expect the quarters of cash remaining at the next 4C to increase substantially to between 6Q to 9Q.

1 Burn = Net Cash from/used In Operating Activities; 2 Equals C \* (# Days Since previous Q end Q4 / # Days in Current Q); 3 Equals Capital Raising(s) - Estimated Costs; 4 Quarters Cash Remaining = (B + E + F) / C ; 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; 7 Includes USD4m from the licensing of Cantrixil, using an exchange rate of 1 AUD = 0.775 USD; 8 There a number of very large expenses in Q2 FY21 that will not be repeated going forward.

### Key Personnel

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

### Chart



## Kazia Therapeutics

Cantrixil licensed To Oasmia Pharmaceuticals & Kazia Shareholders Learn a Positive Lesson About Kazia

### Kazia Therapeutics (ASX: KZA)

Market Capitalisation: \$165.8m

#### Valuation Data (AUD Million)

Year Ending Jun	FY20A	FY21E	FY22E	FY23E	FY24E
Profit	(12.5)	(12.0)	(16.2)	(15.8)	(8.4)
EPS (¢)	(8.2)	(9.9)	(9.5)	(12.8)	(12.5)

#### Balance Sheet (AUD Million)

Year Ending Jun	FY20A	FY21E	FY22E	FY23E	FY24E
Cash & Equivalents	7.6	21.4	8.1	23.3	16.4
R&D Tax Rebate	1.4	1.5	2.0	2.0	0.9
<b>Current Assets</b>	<b>9.0</b>	<b>22.9</b>	<b>10.1</b>	<b>25.3</b>	<b>17.2</b>
Intangibles	12.4	11.3	10.2	9.2	8.1
<b>Non-Current Assets</b>	<b>12.4</b>	<b>11.3</b>	<b>10.2</b>	<b>9.2</b>	<b>8.1</b>
<b>Total Assets</b>	<b>21.4</b>	<b>34.2</b>	<b>20.3</b>	<b>34.5</b>	<b>25.3</b>
Trade & Other Payables	3.5	3.0	3.9	4.0	2.4
Provisions	0.2	0.2	0.2	0.2	0.2
Contingent Consider.	1.4	1.4	1.4	1.4	1.4
<b>Current Liabilities</b>	<b>5.1</b>	<b>4.6</b>	<b>5.5</b>	<b>5.6</b>	<b>4.0</b>
Deferred Tax	3.4	3.1	2.8	2.6	2.3
Contingent Consider.	0.5	0.6	0.8	1.1	1.5
<b>Non-Current Liabilities</b>	<b>3.9</b>	<b>3.7</b>	<b>3.7</b>	<b>3.7</b>	<b>3.8</b>
<b>Total Liabilities</b>	<b>8.9</b>	<b>8.4</b>	<b>9.2</b>	<b>9.3</b>	<b>7.8</b>
<b>Net Assets</b>	<b>12.5</b>	<b>25.8</b>	<b>11.1</b>	<b>25.2</b>	<b>17.5</b>
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)	(48.2)	(64.3)	(80.1)	(88.6)
<b>Total Equity</b>	<b>14</b>	<b>26</b>	<b>10</b>	<b>22</b>	<b>14</b>

#### Profit and Loss (AUD Million)

Year Ending Jun	FY20A	FY21E	FY22E	FY23E	FY24E
<b>Total Revenue</b>	<b>1.0</b>	<b>1.6</b>	<b>1.6</b>	<b>2.2</b>	<b>2.2</b>
R&D Tax Rebate	1.0	1.4	1.5	2.0	2.0
<b>Expenses</b>	<b>(13.8)</b>	<b>(13.9)</b>	<b>(18.0)</b>	<b>(18.3)</b>	<b>(10.9)</b>
EBITDA	(11.8)	(11.4)	(15.5)	(15.2)	(7.8)
D&A	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
EBIT	(12.9)	(12.5)	(16.6)	(16.3)	(8.9)
Net Interest	0.1	0.2	0.1	0.2	0.2
Profit - Pre-Tax	(12.8)	(12.3)	(16.5)	(16.1)	(8.7)
Tax	0.3	0.3	0.3	0.3	0.3
Profit - After-Tax	(12.5)	(12.0)	(16.2)	(15.8)	(8.4)
Comprehensive Profit	(12.5)	(12.0)	(16.2)	(15.8)	(8.4)

#### Cashflow (AUD Million)

Year Ending Jun	FY20A	FY21E	FY22E	FY23E	FY24E
<b>Operating Cashflow</b>	<b>(9.2)</b>	<b>(10.0)</b>	<b>(13.3)</b>	<b>(13.0)</b>	<b>(6.9)</b>
<b>Investing Cashflows</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Financing cashflows</b>	<b>12.1</b>	<b>23.8</b>	<b>0.0</b>	<b>28.2</b>	<b>0.0</b>
Net Equity Raised	12.1	23.8	0.0	28.2	0.0
ΔCash	2.9	13.8	(13.3)	15.2	(6.9)
<b>Cash</b>	<b>7.6</b>	<b>21.4</b>	<b>8.1</b>	<b>23.3</b>	<b>16.4</b>

## Kazia Therapeutics

Cantrixil licensed To Oasmia Pharmaceuticals & Kazia Shareholders Learn a Positive Lesson About Kazia

### 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 (Analyst name and AR number ) 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. Corporate Connect Research may be paid additional fees for the provision of additional services to the Company but Corporate Connect Research is not remunerated for any investment banking or similar services. Corporate Connect Research never accepts payment in stock, options or warrants for any of its services.

Where Corporate Connect Research has been commissioned to prepare content and receives fees for its preparation, fees are paid upfront in cash and NO part of the fee, compensation or employee remuneration paid will either directly or indirectly impact the content provided.

#### 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 (Analyst name ) 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. The Research is provided to our clients through its website and our distribution partners ([www.sharecafe.com.au](http://www.sharecafe.com.au) and [www.informedinvestor.com.au](http://www.informedinvestor.com.au)).

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.

## Kazia Therapeutics

Cantrixil licensed To Oasmia Pharmaceuticals & Kazia Shareholders Learn a Positive Lesson About Kazia

### 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 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 irrespective 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 [retail and ]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](mailto:enquiries@corporateconnect.com.au)

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