



BUY \$0.29

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Company Data

ASX Code	PAB
Price	\$0.29
12 month price target	\$1.00
Implied return	245%

Shares on issue	152.9M
Market capitalisation	\$44.3M
12 Month price range	\$0.25 - \$0.70
Monthly turnover	\$0.4M

Cash Flow Summary

Yr to 30 June	2007A	2008F	2009F	2010F
Receipts	0	0	0	0
Interest	0.1	1.1	0.5	0
Oper. Cash Inflow	0.1	1.1	0.5	0
Oper. Cash Out	(1.1)	(9.0)	(10.5)	(11.5)
Net Oper Cash	(1.0)	(7.9)	(10.0)	(11.5)
Net Inv. Cashflow	(4.7)	(1.7)	(1.6)	(0.1)
Net Fin. Cashflow	33.0	0	0	0
Inc/(Dec) Cash	27.3	(9.6)	(11.6)	(11.6)
Opening Cash	0	27.3	17.7	6.1
Closing Cash	27.3	17.7	6.1	(5.5)

Board of Directors

John Read	Chairman (Non-Exec)
Daniel Devine	CEO
Michael Stork	Non-Exec. Dir.
Alan Robertson	Non-Exec. Dir.

Major Shareholders

PNK Holdings	17.2%
OncoMab GmbH	13.2%
Daniel Devine (CEO)	9.4%

Share Price Chart



Source: Iress Market Technology

Patrys (PAB)

No Growing Pains For Patrys

Highlights From Newsletter

PAB's recent newsletter has highlighted the significant progress the company has made in the last 6 months including:

- **High yielding production process now established**
- **8 new patents filed on targets, products & production process**
- **Solid progress with partnered programs**
- **Ongoing commercial demand for antibody technologies**

The company has confirmed that it is still on track to have clinical data on two of its internal lead antibody products by 4Q 2009.

In our view, the establishment of a high yielding production process addresses one of the key technology risks that faced PAB with its unique natural human antibody technology. As this is no longer an issue and the global demand for antibody therapeutics continuing to be strong, PAB may start to attract the interest of additional potential commercial partners. We maintain our price target of **\$1.00** for PAB with a **BUY** recommendation.

Its All In The Production

The unique qualities of PAB's natural human antibodies meant that there was some technical risk in terms of being able to commercially produce them in large quantities.

Most antibody therapeutics belong to a class called IgG and are produced in rodent cell lines using well established production processes. PAB's lead antibodies (PAT-SM6 and PAT-LM1) belong to the IgM class (which are like 5 IgGs joined up in a ring) and are made in human cell lines. As routine procedures for the large scale production of antibodies in this system (IgMs in human cell lines) had not been established, there was a possibility that it would be difficult to achieve commercially viable production yields. This would have had a significant impact both from a development and a commercial perspective and was one of the key technical risks.

The update reported in PAB's newsletter regarding production is extremely positive for a number of reasons:

- **Good yields:** non-optimised production yields exceeded industry standards which will provide commercially viable cost of goods
- **Broadly applicable:** the production process is applicable for all of PABs antibodies which de-risks the entire pipeline
- **Standardised process:** many of the key steps in PAB's production process (fermentation) have been through regulatory approval
- **New intellectual property:** PAB has filed a patent on a proprietary method for purifying the antibodies that they have developed.

With the production process established, the company will now undertake generate a batch under GMP (Good Manufacturing Process) that will be used for the remaining preclinical and the scheduled Phase-I clinical trials.

The development of a broadly applicable, commercially viable production process that is in line with standards acceptable by the regulators represents a major technical milestone which significantly improves the development and commercial prospects for the company.

Therapeutics, Targets, Treatments and Techniques

During 1H CY08, PAB expanded its intellectual property portfolio filing 8 new patent applications including 5 which related to therapeutics and treatments, 2 for new, cancer-specific targets and 1 for the purification system used in its production process.

One of the unique benefits of PAB's approach to generating antibodies is that it identifies new targets that can be patent protected. The majority of therapeutic antibodies are generated against known targets whose role or presence in cancers has been elucidated from scientific research. While this approach has been effective, the antibody companies usually do not own the intellectual property around the targets which means they either need to seek a license from another party or, more often, will be competing with other companies developing antibodies against the same target. For example, there are over 10 antibodies under development against CD20 and 12 against EGFR.

PAB's antibodies have been identified with no preconceived assumptions about what are the best targets. Instead, the company's approach has been to identify antibodies that the human body naturally raises against cancer cells. Once those antibodies are identified, they can identify the cancer-specific targets.

This approach has been extraordinarily successful in that most of PAB's antibodies tested to date appear to react with new and unique targets which the company can then protect with patents. Furthermore, these targets appear to be completely cancer specific and are not found on normal, healthy tissue. From a commercial perspective, this is a significant benefit:

- **No need to obtain license or pay royalties on targets identified by PAB's antibodies**
- **No competition from other companies developing antibodies to the same target**
- **Highly attractive IP package (antibody plus target) for licensing**

The value of novel antibody targets was highlighted by a deal between GSK and OncoMed Pharmaceuticals in December 2007. OncoMed has a pipeline of monoclonal antibodies against proprietary cancer stem cell targets that the company had identified. While none of OncoMed's antibodies had commenced clinical development, the terms with GSK included an undisclosed upfront and equity payment, up to US\$1.4 billion in milestone payments and a double digit royalty on product sales.

In our view, the combination of naturally generated human anticancer antibodies with novel targets that are patent protected makes PAB a very unique player in the global antibody market.

Good Progress With Partner Programs

Takeda has taken 5 of PAB's antibodies into an evaluation program which allows them to test these antibodies prior to negotiating an license with PAB. The most advanced of these antibodies (PAT-BA4) is now being tested in animal models of human cancer. The other 4 antibodies are still undergoing testing in the laboratory prior to testing in animal models.

Under the agreement, Takeda can test these antibodies until the end of the year (Dec'08) and then has a defined time (probably 2-3 months) to negotiate a commercial agreement with PAB for any it wishes to develop. If, at the end of this time, there is no commercial agreement, PAB retains all intellectual property around those 5 antibodies including any generated during the testing by Takeda.

One of the patents that PAB has recently filed covers the target for PAT-BA4 which is the antibody that Takeda has advanced into animal testing. While we do not believe any licensing discussions have taken place, the addition of target IP would most likely increase the value of any license that PAB may negotiate.

Progress on the clinical development of PAT-SC1 appears to have been delayed by the integration of Cambridge Antibody Technologies and MedImmune into AstraZeneca. However, what is encouraging is that, despite the distraction of post-merger integration, MedImmune (which has effectively become the biologics arm of AstraZeneca) has sought access to manufacturing IP for PAT-SC1. In our view, this indicates that this is still a very active program within the new entity and still getting attention from management.

We view the benefits of PAB's partnered antibodies as providing additional programs which are being progressed at no cost to the company and which provide an option for future upside. However, the key value driver for the company is the progress of its internal leads.

Antibodies Are Hot, Hot, Hot

In our initiation of coverage report on PAB (The Benefits of Being Human - 4 Sept'07) we highlighted the strong industry demand for antibodies with most of the major pharma companies doing deals to access new therapeutic antibodies and antibody technologies. The key drivers fuelling this demand are:

- **Product pipeline management:** major pharma products coming off patent
- **Greater protection:** antibodies are less susceptible to generic competition
- **Lower development risk:** historically lower attrition rates from antibodies
- **Strong commercial potential:** several antibody blockbuster products in the market

As these fundamental drivers for the pharma industry have not changed, it should be no surprise that the demand for antibodies has continued. However, with the high demand and many of the key antibody companies now tied up in commercial arrangements, the size of antibody deals appears to keep getting bigger and the stage of development at which pharma is prepared to deal seems to be getting earlier.

In the most recent deal that has been announced, Roche has licensed an anticancer antibody from BioInvent/Thrombogenics in a deal which includes Roche paying for the remaining development of the product, a US\$75M upfront payment, up to US\$700M in development and commercial milestones and a double-digit royalty on product sales. This antibody has only just entered the clinic having completed an initial Phase-Ia clinical trial which involves testing a single dose. For a small molecule drug, terms such as these would typically only be expected after Phase-II clinical testing.

Industry projections for the antibody segment of the pharmaceutical market remain bullish with predictions that sales of antibody therapeutics will reach US\$50 billion by 2013 reflecting a CAGR of 10%. Much of this sales growth will come from some of the leading products already on market (Avastin, Herceptin, Humira, Remicade and Rituxan). However the commercial success of these products will continue to drive pharma companies to seek new antibodies products to replace revenues lost to patent expiration.

Why You Should Own PAB

At its IPO in July 2007, PAB raised sufficient funds to generate clinical data on two of its anti-cancer antibodies by 4Q CY09 and the company remains on track to achieve this. We believe that this is the key value driver for the company and our view is reinforced by a multitude of significant deals that have taken place for unique antibodies which would support a valuation for PAB several times higher than it is currently trading.

In addition to this, the partnering side of the company provides further commercial opportunities from existing partners (Takeda and AstraZeneca) or through additional licensing deals with some of its 260 back-up antibodies. This provides some diversification in terms of commercial opportunities it is not as significant as the potential upside from the company's internal lead products.

PAB's technology is unique in the antibody space:

- **Natural human antibodies:** generated by the human body to protect itself
- **Cancer-specific targets:** greater specificity with lower potential for side-effects
- **Proprietary targets:** freedom to operate and protection from competition

In a world where there is already a high demand for antibody therapeutics, these qualities will make PAB's leads particularly attractive. Now that the company has established a large scale manufacturing process that gives commercially viable yields and will meet standards that are acceptable to the regulators, one of the key technical risks associated with PAB's unique approach has been eliminated.

We believe that PAB has the potential to deliver very significant returns over the next 12-18 months. While there is no doubt that clinical trial data will provide a major inflection point, given the potential magnitude of the upside, the possibility of additional news flow from the partnering program and relative scarcity of stock, investors who attempt to "time" their holdings run a very real risk of missing out on the upside when it happens.

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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.

The analyst holds shares in Patrys Limited (PAB).

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.

Disclaimer

Lodge Corporate Services has provided corporate advice and services to Patrys Limited including Lead Manager and Underwriter for an Initial Public Offering that raised \$25m at \$0.40 per share in July 2007.

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