

**BUY \$0.51****Matthijs Smith**

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ASX Code	PAB
Price	\$0.51
12 month price target	\$1.00
Implied return	96%

Shares on issue	152.9m
Market capitalisation	\$76.4m
12 Month price range	\$0.44 - \$0.70
Monthly turnover (shares)	3.7m

**Cash Flow Summary**

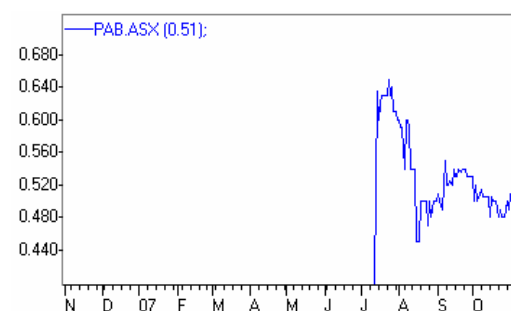
Yr to 30 June	2007A	2008F	2009F	2010F
Receipts	0	0	0	0
Interest	0.1	1.1	0.5	0
Oper. Cash Inflow	0.1	1.1	0.5	0
Oper. Cash Out	(1.1)	(9.0)	(10.5)	(11.5)
<b>Net Oper Cash</b>	<b>(1.0)</b>	<b>(7.9)</b>	<b>(10.0)</b>	<b>(11.5)</b>
Net Inv. Cashflow	(4.7)	(1.7)	(1.6)	(0.1)
Net Fin. Cashflow	33.0	0	0	0
<b>Inc/(Dec)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

**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****Patrys (PAB)****Expect A Reaction From Good Progress****Summary**

Since its IPO in July 2007, PAB has made significant progress on all aspects of its operations. We expect this will provide strong news flow over the coming months including:

- **Further progress in taking internal products towards the clinic**
- **Expansion of lead antibody pipeline and R&D capacity**
- **Development of licensed products by Takeda and AstraZeneca**

We anticipate that this strong news flow combined with the CEO, Dan Devine, having relocated to Australia, will provide greater support on the market for PAB. We retain our **12-month price target of \$1.00**.

**Internal Products On The Road To Clinic**

PAB's key goal, as outlined at the time of listing, is to get two internal anti-cancer antibodies (LM1 and SM6) into clinical testing by the end of 2008. The two key steps involved in achieving this are:

- Scaled-up GMP production of the antibodies
- Completing large animal safety studies using the GMP antibody

In their 2007 annual report, PAB confirmed they expect to commence production of their first antibody in November 2007. Production of second antibody is likely to commence in 1Q 2008. We expect the scale-up will take 4-6 months for final product. However, the key elements and parameters for the production should be established in the first three months.

LM1 and SM6 are both a type of antibody called IgM which have different characteristics to IgGs. Thus the scale-up production requires the development of new processes. Our 4-6 month estimate takes into account additional development work that may be required to optimise the production process for IgM. However, as the company has already achieved good yields from small and medium scale production runs, we do not believe there will be major technical hurdles for the scale-up GMP production.

**Prospectus Timeline To Clinic Is Conservative**

PAB's timeline for its internal antibodies reaching the clinic in 4Q 2008 included the company undertaking a significant toxicity and safety studies in primates. It is not clear whether it will be necessary for the company to undertake all of these studies. The company will finalise its preclinical development plan, including the required animal toxicology testing, in pre-IND meetings with the FDA during 1Q 2008.

If only the shorter, initial primate studies are required, we expect the time to the first clinical studies will be brought forward for two reasons:

- results from the shorter studies would be available sooner
- less antibody will be needed reducing the production requirements

Thus, the estimated filing of an IND for clinical studies in 4Q 2008 is pragmatically conservative. However it is possible that the first clinical studies may commence up to 3 months earlier.

## Two More Leads In The Pipeline

In their 2007 Annual Report, PAB announced that they have advanced another two of their 265 cancer-specific back-up antibodies into lead status. These two antibodies (called PAT-BA3 and PAT-BA4), have successfully completed a battery tests in the laboratory and have demonstrated properties that make them attractive for further development including:

- **Cancer-specific:**- do not react with any normal tissues tested
- **Multiple applications:** - react with multiple different cancers
- **Cell-surface targets:**- bind to the surface of cancer cells
- **Kill cancer cells:**- the antibodies stop growth of cancer cells and can cause them to die

Unlike the current antibodies that PAB is developing internally, which are IgMs, BA3 and BA4 belong to the class of antibodies known as IgGs. Primarily due to historical reasons, the majority of antibodies currently on the market are IgGs and hence the processes for scale-up manufacture of these antibodies are more established and the market is more comfortable with this class as a therapeutic. As we described in our initiation of coverage note on PAB ("The Benefits of Being Human" 4 September 2007), we believe PAB's IgMs may provide a very new and powerful approach as cancer therapeutics and is one of the unique aspects of PAB compared with antibody companies.

That being said, the therapeutic potential of IgGs is well established and PAB's new leads are a valuable addition to their pipeline. The greater familiarity of the market with this class of antibody as a therapeutic is likely to make them more attractive to potential licensing partners in the near term.

The isolation of cancer-specific IgGs from PAB's library also confirms that PAB's proprietary hybridoma technology does not result in any "selection-bias" for a particular type of antibody. It reinforces the validity of PAB's approach for generating new therapeutics which effectively isolates that antibodies that the human body generates to protect itself against cancer and other diseases.

## Stronger Team For IP Generation

As indicated at the time of the IPO, PAB has now expanded its research capacity with the recruitment of additional scientific staff at its laboratory in Wurzburg Germany. These staff will be involved in key activities that will significantly strengthen PAB's intellectual property portfolio:

- **Lead generation:**- advancing more of the 260 back-up antibodies into lead development
- **Lead development:**- activity profiling and preclinical development of lead antibodies
- **Target identification:**- finding and characterising the new targets the antibodies bind to

These activities will expand the commercial opportunities for the company as well as continue to increase the value of its drug pipeline. As many of PAB's antibodies appear to react with new targets that are only found on the surface of cancer cells (and not normal, healthy tissues), the identification of these targets will provide the company with extremely valuable intellectual property that has a number of different applications. Furthermore, from a licensing perspective, the combination of a proprietary antibody and a proprietary target provides a very attractive package for pharmaceutical companies.

PAB is also in the process of establishing a small R&D laboratory in Melbourne, Australia. This facility will focus on generating recombinant (genetically engineered) versions of antibodies from PAB's library. Recombinant antibodies can be made so they have slightly different properties that make them more suitable for other applications including diagnostics, imaging agents, targeting agents and other forms of second generation therapeutics. We believe that while the cost of running this laboratory will be modest (<\$0.5m per year), it will open up additional commercial opportunities for the company.

## More Progress From Partners

PAB has a partnership in place with Takeda Pharmaceuticals (Japan) and two of its antibodies currently licensed to AstraZeneca (UK) and Debiopharm (UK). These parties are all undertaking further development of PAB's antibodies which will benefit the company.

On 28 September 2007, PAB announced that Takeda had expanded its collaboration to include an additional two antibodies bringing the total number to five of PAB's antibodies. Under the agreement, Takeda has 12-months to evaluate these antibodies using their own experimental models and assays. At any stage during this time, and for a limited time after it, Takeda can negotiate a commercial license to acquire rights to any of the antibodies.

It is important to understand that there are no pre-established commercial terms with respect to such a license and, if Takeda and PAB are unable to agree on the appropriate commercial terms, the rights to the respective antibodies will remain with PAB. Furthermore, PAB will also have an exclusive right to any intellectual property that Takeda generates with respect to the antibodies during the evaluation. As a result of this structure, it is in Takeda's interest to consider licensing any of the antibodies as early as possible, once they have satisfied their internal evaluation criteria.

While the initial selection by Takeda of antibodies under this arrangement was based on data supplied by PAB, Takeda is now undertaking work in its laboratories on these antibodies. From a news flow perspective, what this means for PAB is that during the next 12-months, we anticipate:

- Data from Takeda's internal evaluation program on the five antibodies
- Potential for licensing or co-development agreement on any of the five antibodies

Given our understanding of the type of evaluation work being undertaken by Takeda, PAB may receive some of the initial evaluation data as early as 1Q 2008.

In addition to Takeda, AstraZeneca is doing further work on the SC1 antibody that has already shown promising results in an investigator-led human clinical trial. This could generate additional data that may result in the commencement of further clinical testing in the near future. PAB also has one of its antibodies with the UK-based Debiopharm who are likely to be seeking a sub-license partner to progress it into clinical development.

## Being There

We believe that PAB is well positioned to generate good near-term news flow that should translate into greater market support for the stock. This anticipated news will come from all aspects of the companies operations including:

- Progress of its internal leads towards clinical development
- Continuing to expand the company's IP (both in lead antibodies and targets)
- Development and licensing opportunities from the company's partnered antibodies

Although the company's internal antibodies are not scheduled to commence clinical development until 4Q 2008, this is based on completing a very comprehensive preclinical program. It is possible that the first clinical studies may commence before this time and, in the interim, the other aspects of the company's activities also have the potential trigger a rapid re-rating of the stock.

Thus, investors need to be conscious of the potential of PAB to offer good growth, even in the near term, and those who try to time their holdings run the risk of missing out on some of the potential growth.

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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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