



Company Brief

Cellmid Limited (CDY)

Marc Sinatra

+61 3 9200 7050

m.sinatra@lodgepartners.com.au

Hair growth = Sales Growth = Share Price Growth

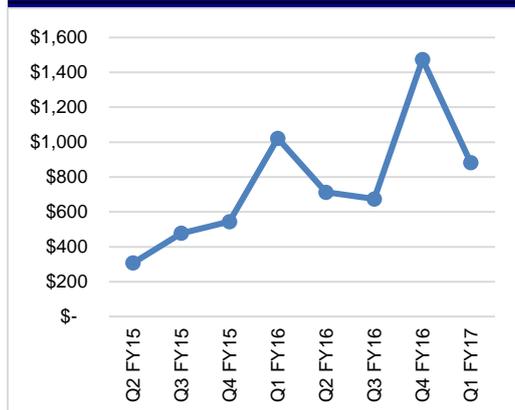
Company Data

ASX Code	CDY
ASX Price	3.1 cents
Shares on Issue	968m
Market Capitalisation	\$33.0m
12 Month Price Range	1.6 – 4.1 cents
ASX Turnover (Shares, Oct 16)	86.9m

Board of Directors

Dr David King	Chairman (Non-Exec)
Ms Maria Halasz	MD & CEO
Mr Bruce Gordon	Non-Exec. Dir.
Mr Fintan Walton	Non-Exec. Dir.

Cash Receipts (000s AUD)



Cellmid reported a very healthy 69% growth in sales revenue from its consumer health division, with sales increasing from \$1.8m in 2015 to \$3.1m in 2016. The consumer health division (principally, Advangen, which sells the evol^{is}® range of products; see below) represents one of the company's two divisions. The other division is focused on developing drugs and diagnostics focused on midkine (MK), protein involved in several cellular activities (e.g. cell proliferation, angiogenesis).

Hair Growth and Care - Consumer Health Division

The consumer health division (Advangen and subsidiaries) has been built around evol^{is}® hair tonics for men and women. The hair tonics contain a natural extract which inhibits a protein called FGF5 (fibroblast growth factor 5). By inhibiting FGF5, hair follicles stay in growth phase longer, where the cells that form the root of the follicle divide rapidly for longer, reducing hair loss and increasing the length of hair fibres.

Cellmid also has complementary shampoos and the additional brands of Jo-Ju® and Lexilis®, all of which are centred on an FGF5 inhibiting extract.

Recently, the company appointed a US distributor, known for its marketing and distribution of high-end hair care products. The US is a wealthy market that, with a population 13.5 times that of Australia, is capable of providing sales revenues of multiples of those obtained from Australia.

Drugs and Diagnostics - Midkine Division

Cellmid has three programs organised into two subsidiaries in the MK Division. These subsidiaries have been established to allow third parties to easily invest directly in one or both. The divisions are:

Lyramid Limited is developing antibodies to MK to treat inflammatory conditions, like chronic kidney disease, autoimmune diseases and cancer. It also licences a patent portfolio pertaining to the use of MK for detecting early cancer. To date, four non-exclusive licences have been granted.

Kinera Limited is looking to exploit Cellmid's patents covering MK and conditions resulting from low/restricted blood flow. Kinera is actively developing a clinical path for MK as a therapeutic agent.

Progression of each of these subsidiaries' programs is dependent on each securing their own sources of funding, so they are not a drag on cash.

Financials

The Consumer Health Division represents the Cellmid's near/medium term growth opportunity, while the MK Division represents longer term, blue-sky, with little downside, given the way the subsidiaries are funded.

FY16 sales growth was a solid 71%. The chart on the left takes a closer look, using quarterly cash receipts as a proxy for consumer health sales. Growth is lumpy, as is expected at this early stage, but a strong positive trend is visible. That trend is evidenced by Cellmid's Japanese subsidiary, where the product was first launched, becoming profitable in FY16.

Although the company's net loss improved only marginally (+6%; 2016: -3.0m; 2015: -3.2m), it is clear that sales are growing and costs are under control. Of course, also, the US market awaits. A \$3.0m capital raising has just been completed and the company, putting the company on a sound financial footing with approximately \$4.6m cash.

Conclusion: Cellmid is solid sales growth, with good cost containment. A very sizeable US market awaits. If it can replicate what it did in Australia there, the company's stock will appreciate significantly.

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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.

Analyst Verification

I verify that I, Marc Sinatra, 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.

Contact Lodge Partners:

Melbourne

Level 6, 90 Collins St
Melbourne Vic, 3000

Phone: +61 3 9200 7000

Fax: +61 3 9200 7077

www.lodgepartners.com.au