

Medical Therapies Ltd (ASX:MTY)

Looking to profit from large IP portfolio...

Important European patent granted. The IP Portfolio has grown with the addition of a European patent for treatment of narrowing of blood vessels. It adds another patent with the possibility to enter into lucrative licensing deals.

Independent research shows midkine can enhance breast cancer diagnostic. Independent reeseach at Kumamoto University has shown that midkine, when used in tandem with traditional markers, can increase cancer detection from 29.9% to 44.9%. This helps validating the company's cancer diagnostic technology and could increase the value of licensing deals.

MTY is currently in negotiations with a number of potential licensees for its cancer diagnostic portfolio. A number of discussions are on foot between biopharmaceutical companies and Medical Therapies with the possibility to sign licensing deals in relation to the company's cancer diagnostic assets. Typically, diagnostic licenses include an upfront payment, funding for product development and in some cases milestone and royalty payments. MTY currently holds 4 diagnostic patent families and more than 20 granted patents around midkine with multiple opportunities for license deals.

Agreement signed with Kumamoto University. The University will further validate midkine as a diagnostic and therapeutic agent. MTY has supplied its antibodies to their research team and in return receive first rights to commercialise any new discoveries. Apart from the obvious saving of R&D expenditure, MTY gains independent verification of its diagnostic technology.

Appointment of ex Arana Chairman to the Board. Mr Robin Beaumont, who was Chairman of Arana, one of the largest Australian biotech companies, has been appointed to the Board of Medical Therapies. His appointment is a strong endorsement of Medical Therapies both in terms of its technology and business potential.

Recent \$550,000 capital raising complete at 2.2c. This puts the current cash balance at over \$200,000. The monies raised have been used for product development, patent support and for working capital. The company is looking at funding its product development expenditure with a mixture of some equity capital raising and licensing revenues.

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SPEC BUY

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Board of Directors

Chairman	Dr David King
Managing Director	Maria Halasz
Director	Koichiro Koike
Director	Robin Beaumont

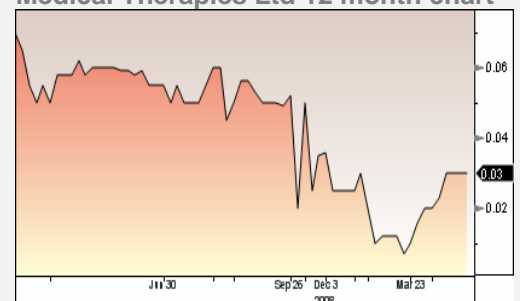
Major Shareholders

Cell Signals	18.9%
Top 20 holders	65%

Share Data

Sector	Biotech
Market Cap	\$6.15m
Share price	\$0.029
Shares on issue	212m
Options on issue	
Avg. Daily Value	
Traded (30 days)	\$6,110

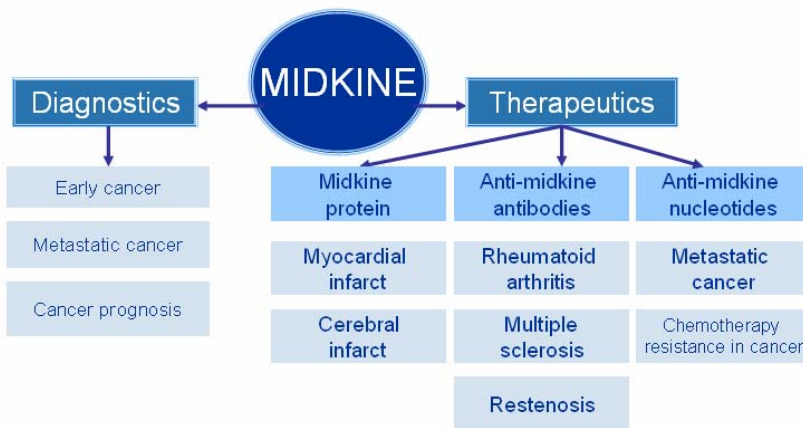
Medical Therapies Ltd 12 month chart



MTY AU: Medical Therapies Ltd G-1 Daily 5/15/08 to 5/11/09 Copyright © 2009 Bloomberg Finance L.P. 15-May-2009 10:01:45

Source: Bloomberg

Figure 1: Medical Therapies Midkine portfolio



Source: MTY

European patent granted

Medical Therapies has been granted a European patent entitled “Pharmaceutical compositions for the prevention and treatment of atherosclerosis and restenosis after PTCA”. Anti-midkine compositions have been shown to be useful in the prevention and treatment of narrowing blood vessels. This is often due to fatty deposits (cholesterol) but can also occur after stent implant following heart surgery. These deposits can lead to heart attack, stroke and vascular diseases. These conditions are them most common cause of serious illness and death worldwide. The cholesterol drug market is worth US\$20bn in the USA alone.

“Important European patent granted”

Appointment of Robin Beaumont

The appointment of Mr Beaumont to the Board is a strong endorsement of Medical Therapies’ intellectual property and business strategy. He was the Chairman of Arana, one of the largest Australian biotech companies until its recent acquisition by Cephalon Inc, a US pharmaceutical company with annual revenues of \$7 billion. Mr Beaumont has spent over 25 years in the industry and has more than 20 years of board experience in the sector. He has previously been a director of Primary Healthcare, the Chairman of the Cooperative Research Centre for Diagnostics and non-executive director of GroPep Limited.

“Independent research shows midkine boosts breast cancer detection”

Agreement with Kumamoto University

Medical Therapies has signed a collaborative agreement with Kumamoto University in Japan. MTY has supplied its IP14 antibodies to the University’s research team in exchange for first rights to review and commercialise any new data and inventions. All research will be funded by the University. It is likely Medical Therapies will look for more such deals as it speeds up the research & development department while lowering expenditures. The same University has demonstrated their expertise in midkine research when they recently verified that midkine combined with conventional markers substantially increases breast cancer diagnostics. The conventional tests detected breast cancer at a rate of 29.9%, whilst adding midkine increased detection rates to 44.9%.

Previous licensing deals

Medical Therapies is actively pursuing licensing opportunities to take advantage of its patent portfolio; 26 patent families and more than 50 granted patents around the protein midkine and its uses for diagnosis and treatment of cancer and autoimmune diseases. Licensing agreements could potentially become a significant contributors to the Company's cash flow in addition to providing validation of the technology.

The value of the licensing deal depends on whether it is a diagnostic or therapeutic application. In addition, the type of drug and its stage of development will strongly influence the terms. Diagnostic deals are often structured with a relatively lower upfront and milestone payments and royalties depend on how close the product to the market is.

In addition to its diagnostic portfolio Medical Therapies is in the process of preparing its therapeutic antibodies for out-licensing for the treatment of arthritis and multiple sclerosis. The median value for upfront payment for pre-clinical (early) stage antibody deals was US\$7.9M between 2001 and 2004. This value rose substantially to a median value of US\$25m for phase I and phase II and up to US\$50m for phase III drugs.

A licensing deal would be significant for Medical Therapies as it would be non-dilutive, give instant benefit to stakeholders and could provide significant future revenue source via royalty.

Medical Therapies has four main divisions all of which have intellectual property portfolios it may license. Some of these are outlined on the table below.

Table 1: MTY is looking to license out or develop in-house their different sub-divisions

Division	License	Product to Market
Diagnostic	Lung cancer, Gastric cancer	ELISA for research, Antibodies, Point of care, Dog cancer, Horse wellness, Feline cancer, Colorectal cancer, Breast cancer
Therapeutic antibodies	Multiple sclerosis, Rheumatoid arthritis, Restenosis, Vitiligo,	Horse Inflammatory Treatment
Small molecule antagonist	Colorectal Cancer	Dog cancer
Therapeutic Protein	Heart Attack, Stroke, Renal ischemia, Wound healing	

Source: MTY

“Negotiations are progressing with a number of groups to out-license the cancer diagnostic and antibody therapeutic assets”

Near term revenue possible

Medical Therapies is looking to commercialise its cancer markers for the veterinary market in Australia and in the USA. In Australia the company is looking at marketing to veterinary surgeons while a distribution partner will be sought for the US market.

Given that a distribution partner is engaged and a royalty rate of 8% is agreed upon we have come up with a NPV per share of \$0.17 over 5 years for this one division of the company. This is based on a discount rate of 15%.

“Potential to profit from the lucrative veterinary diagnostic market in Australia and in the USA”

Table 2: Veterinary Diagnostic revenue model

MK Veterinary Diagnostic

Australia

	2011	2012	2013	2014	2015
# dogs tested per yr('000)	35	50	100	150	200
Sales (\$'000)	1,750	2,500	5,000	7,500	10,000
Probability	80%	80%	70%	70%	70%
Risk adjusted revenue	1400	2,000	3,500	5,250	7,000

US

# dogs tested per yr ("000)	1,000	1,857	2,475	3,301	4,401
Sales (\$'000)	85,000	157,807	210,409	280,546	374,061
Increase in sales		185%	25%	25%	25%
Probability	80%	80%	70%	70%	70%
Risk adjusted revenue	68,000	126,246	147,286	196,382	261,843
Royalty	5,440	10,100	11,783	15,711	20,947

Total Revenue to MTY

	6,840	12,100	15,283	20,961	27,947
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Marketing	\$0.120	\$0.126	\$0.132	\$0.139	\$0.146
Management & Admin	\$0.230	\$0.241	\$0.253	\$0.266	\$0.280
R&D Expense	\$0.850	\$0.892	\$0.937	\$0.702	\$0.702
= total expense	\$1.200	\$1.259	\$1.322	\$1.107	\$1.128

=NPBT	\$6,839	\$12,098	\$15,282	\$20,959	\$27,946
Tax @ 30%	\$2,051.64	\$3,629.52	\$4,584.48	\$6,287.84	\$8,383.88
=NPAT	\$4,787	\$8,469	\$10,697	\$14,672	\$19,562

time	1	2	3	4	5
Discount value	0.8696	0.7561	0.6575	0.5718	0.4972
WACC	15.0%				
Discounted profit	4,163	6,404	7,034	8,389	9,726
Total	35,714				
Shares	212,581				
NPV per share	\$0.16800				

Source: Industry estimates, Wise-owl

Board of Directors

Dr David King – Chairman

Dr David King brings a depth of corporate governance, capital markets and listed company board experience to Medical Therapies. He has previously held positions as Executive Director, Chief Executive Officer and Managing Director in a number of private and listed companies. An expert in high growth companies Dr King has a track record in starting business ventures and developing them into attractive investment and/or take-over targets. His experience in successful start-up businesses has been instrumental in MTY's recent acquisition of the midkine intellectual property portfolio.

Dr King is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australian Institute of Geoscientists and the Australian Institute of Mining & Metallurgy (Chartered Professional, Management) and holds degrees in physics and geophysics and a PhD in Seismology from the Australian National University.

Maria Halasz – Managing Director & Chief Executive Officer

Maria Halasz has been involved with biotechnology companies for 16 years; initially working in executive positions in biotechnology firms, then managing investment funds and later holding senior positions in corporate finance specialising in life sciences. Prior to joining Medical Therapies Ms Halasz had been an adviser to an independent sector based research firm in life sciences and managed Direct Capital Group Pty Ltd, a specialist biotechnology fund. She has also been a venture partner at the Emerging Technology Fund of venture capital firm Allen and Buckeridge.

Since taking over as Chief Executive and Managing Director of Medical Therapies Ms Halasz has led the restructure of the business, the acquisition of the midkine intellectual property portfolio and the recapitalisation of the company. Ms Halasz is a Member of the Australian Institute of Company Directors and holds a science degree in microbiology and an MBA.

Koichiro Koike – Director

Mr Koichiro Koike is based in Tokyo and is co-principal of V2V, a corporate advisory firm specialising in cross border life sciences transactions between Australian and Japanese companies. Following his early career as a corporate finance and M&A specialist in Tokyo for a European investment bank Mr. Koike lived in Melbourne for 15 years.

While in Australia, Mr Koike has served on a number of public and private life science company boards and has developed a strong track record in facilitating business and corporate development events between firms of all sizes in the sector.

As an adviser he has been involved in out-licensing technology, capital raisings and initial public offerings. Whilst having a thorough understanding of the day to day requirements of high growth companies Mr Koike also has extensive contacts in some of the most prominent diagnostic and pharmaceutical companies in Japan. These companies are key candidates for MTY's out-licensing activities, particularly for its diagnostic portfolio. Mr Koike has been closely involved with the Midkine technology for over a year and was an adviser to Cell Signals Inc., the vendors of the technology, during the acquisition process.

Robin Beaumont – Non-executive Director

Mr Robin Beaumont is a senior strategic adviser and experienced public company director. He was Chairman of Arana Therapeutics Limited, a listed biotechnology company, until the company's recent takeover by Cephalon Inc., and was a director of antibody engineering company Evogenix Limited until its merger with Peptech Limited to form Arana Therapeutics in 2007. His life science industry experience also includes previous roles as Chairman of Select Vaccines Limited, Chairman of the Cooperative Research Centre for Diagnostics and non-executive director of GroPep Limited.

Mr Beaumont was Managing Director of the Advent venture capital group until 1998 and represented Advent's interests as a director of Primary Health Care, Benchmark Mutual Hospital Group, The Preston Group, Tower Technology and the Ayers Rock Resort Company. He is also a former non-executive director of Ruralco Limited.

Prior to joining Advent, Mr Beaumont had more than ten years of strategy consulting experience, after holding senior management positions in a large listed company.

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Care has been taken to define the level of risk to return associated with a particular company. Our recommendation ranking system is as follows:

Spec Buy

We forecast strong earnings growth or value creation that may achieve a return well above that of the broader market. These companies also carry a higher than normal level of risk.

Buy

Companies with 'Buy' recommendations have been cash flow positive for some time and have a moderate to low risk profile. We expect these to outperform the broader market.

Hold

A sound well managed company that may achieve market performance or less, perhaps due to an overvalued share price, broader sector issues, or internal challenges.

Sell

Risk is high and upside low or very difficult to determine. We expect a strong underperformance relative to the market and see better opportunities elsewhere.

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