



18 April 2007

Living Cell Technologies Limited (LCT)

Speculative Buy

NZ Approval to Commence Phase 1/2a Type 1 Diabetes Clinical Trial

\$0.15

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Key Points

LCT has received regulatory approval via New Zealand's regulatory agency MedSafe.

The approval will allow LCT to commence a Phase 1/2a human clinical trial of its DiabeCell[®] cell therapy for type 1 diabetes.

LCT requires regional ethics committee approval as last hurdle to commencement of trial.

8 patient, 12 month study with estimated costs of A\$0.5 million commencing 4Q CY07.

Second Phase 1/2a trial in place, with first patient dosing in Russian trial expected within weeks.

Summary

Market Capitalisation (M)	\$23.7
Share Price	\$0.15
52 Week High	\$0.25
52 Week Low	\$0.13
Av. Monthly Volume (Yr Rolling)(M)	2.2
Est. Cash as at 31/03/07 (M)	\$3.3
Est. Cash Burn Per Quarter (M)	\$1.3
Market Cap.: Cash Ratio	7.2
Market Cap.: Cash Ratio (Sector)	14.2

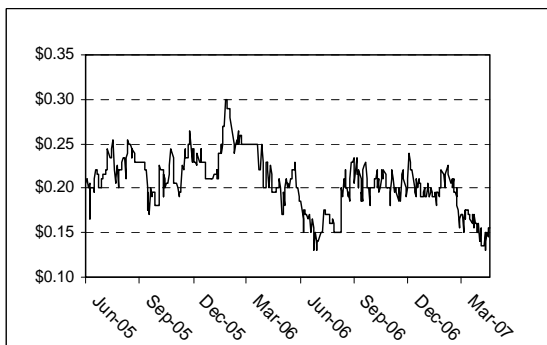
Our View

- The MedSafe approval represents a major milestone for LCT given a western government health regulator has approved a trial using a xeno (animal)-based cell therapy. We consider the approval a very important validation of LCT's stringent GMP manufacturing processes (this approval came in Dec 06), quality control and assurance and overall diligence in ensuring the animal implants will be safe and the appropriate monitoring processes in place. Moreover, the approval indicates that the significant unmet need and economic burden with respect to type 1 diabetes management has largely overcome the ethical issue of animal to human transplants.
- We have previously valued the total NZ market for DiabeCell[®] at US\$275 million, though based on those unmanageable type 1 patients for which insulin shots provide inadequate control, we believe the opportunity is more realistically US\$5 million in annual sales for this market. LCT plans to utilise the human clinical data from both Russian and NZ trials to facilitate an IND with the FDA, possibly as early as CY08. We note LCT operates under the FDA's own rigorous xenotransplantation guidelines, though to date an IND has proved elusive for the Company.
- We believe LCT will need to expend modest Capex to increase the pig capacity to meet the requirements of the 2x Phase 1/2a clinical trials (TC estimates \$0.3 million) envisaged for CY07. We have reduced our FY07 NPAT loss forecast by 11.2% to \$6.7 million, principally due to a reduction in R&D attributable to NeurotrophinCell[®] and wind down of US operations. As the first Company of its kind to be conducting approved xeno-based cell therapy trials in man, we believe LCT is at a distinct competitive advantage versus its closes US competitor, MicroIslet (AMEX:MII). The Company has already demonstrated that live porcine islet cells could be extracted from a single patient without immunosuppressive drugs some ten years after implantation, and detectable pig insulin in the patient's blood. We continue with our Speculative Buy recommendation, on expectation of indications of safety and efficacy from the Russian Phase 1/2a trial during 2H CY07.

Key Financials (A\$'000)

Year End	FY05 Actual	FY06 Actual	FY07 Est.
Total Revenue	226	292	1,845
Total Operating Exp.	(5,138)	(5,852)	(6,043)
Net Op. Rev	(4,912)	(5,560)	(4,198)
R&D Expenses	(1,369)	(1,072)	(2,345)
EBITD	(6,434)	(6,734)	(6,502)
EBIT	(6,580)	(6,922)	(6,705)
NPAT pre Net R&D	(5,058)	(5,561)	(4,402)
Reported Profit	(6,427)	(6,820)	(6,747)
EPS (c)	(7.7)	(6.3)	(4.9)

Share Price Graph (A\$)



Living Cell Technologies Limited - Summary of Forecasts

LCT \$0.15

PROFIT & LOSS SUMMARY (A\$'000)				
Period	FY05A	FY06A	FY07E	FY08E
Total Revenue	226	292	1,845	1,285
<i>Growth (pcp)</i>	123.8%	29.2%	531.8%	-30.3%
Net Operating Revenue	(4,912)	(5,560)	(4,198)	(5,126)
R&D Expenses	(1,369)	(1,072)	(2,345)	(3,600)
EBITD	(6,434)	(6,734)	(6,502)	(8,612)
Depreciation	(146)	(188)	(204)	(253)
EBIT	(6,580)	(6,922)	(6,705)	(8,865)
Net Interest	153	102	(42)	(114)
Pre-Tax Profit	(6,427)	(6,820)	(6,747)	(8,979)
Tax Expense	0	0	0	0
Minorities	0	0	0	0
NPAT pre Abs/Extr	(6,427)	(6,820)	(6,747)	(8,979)
<i>Growth (pcp)</i>	n/a	n/a	n/a	n/a
Net Abnormals	0	0	0	0
Reported Profit	(6,427)	(6,820)	(6,747)	(8,979)
NPAT pre Net R&D	(5,058)	(5,935)	(4,402)	(5,379)

PER SHARE DATA				
Period	FY05A	FY06A	FY07E	FY08E
EPS (c)	(7.7)	(6.3)	(4.9)	(5.5)
<i>Growth (pcp)</i>	n/a	n/a	n/a	n/a
Dividend (c)	0.0	0.0	0.0	0.0
Franking	n/a	n/a	n/a	n/a
Gross CF per Share (c)	(8.5)	(6.3)	(4.2)	(5.2)
NTA per share (c)	3.8	1.7	0.7	1.0

EQUITY RAISING ASSUMPTIONS				
Period	FY05A	FY06A	FY07E	FY08E
Shares Issued (m)	12.0	10.5	29.1	26.7
Issue Price (A\$)	0.40	0.22	0.175	0.30
Cash Raised (A\$m)	4.8	2.3	5.1	8.0

BALANCE SHEET SUMMARY				
Period	FY05A	FY06A	FY07E	FY08E
Cash	2,648	2,956	1,798	1,079
Receivables	43	2	184	129
Inventories	16	33	184	129
Other	11	12	12	12
Total Current Assets	2,718	3,003	2,179	1,349
Investments	0	0	0	0
Inventories	0	0	0	0
Property Plant & Equip	882	949	1,265	1,259
Intangibles	0	0	0	0
Other	345	306	344	344
Total Non-Current Assets	1,227	1,255	1,609	1,603
TOTAL ASSETS	3,945	4,258	3,788	2,952
Accounts Payable	740	513	922	1,285
Borrowings	24	0	0	0
Provisions	42	62	65	68
Other	0	0	0	3
Total Current Liab	806	575	987	1,357
Borrowings	3	1,887	1,887	0
Provisions	0	0	11	11
Other	0	0	0	0
Total Non-Current Liab	3	1,887	1,898	11
TOTAL LIABILITIES	809	2,462	2,885	1,368
TOTAL EQUITY	3,136	1,796	903	1,584

CASH FLOW SUMMARY				
Period	FY05A	FY06A	FY07E	FY08E
EBIT (excl Abs/Extr)	(6,580)	(6,922)	(6,705)	(8,865)
Add: Depreciation	146	188	204	253
Amortisation	0	0	0	0
Change in Pay.	(816)	(243)	409	363
Less: Tax paid	0	0	0	0
Net Interest	153	102	(42)	(114)
Change in Rec.	(72)	(41)	182	(56)
Change in Prov.	19	20	(8)	3
Change in Inv.	14	17	151	(56)
Gross Cashflows	(7,136)	(6,879)	(5,808)	(8,472)
Capex	(418)	(257)	(450)	(247)
Free Cashflows	(7,554)	(7,136)	(6,258)	(8,719)
Dividends Paid	0	0	0	0
Net Cash Flow	(7,554)	(7,136)	(6,258)	(8,719)

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