

Cyclacel Pharmaceuticals, Inc. (CYCC - \$ 3.24)

2Q14 EPS Beat Expectations, Trial Progress Updates

CYCC reported 2Q14 EPS of a loss of \$0.22, \$0.02 above our estimate of a loss of \$0.24 and \$0.06 above the consensus estimate of a loss of \$0.28.

- EPS Above Expectations.** Cyclacel announced 2Q14 EPS of a loss of \$0.22, \$0.02 above our estimate of a loss of \$0.24 and \$0.06 above the consensus estimate of a loss of \$0.28. CYCC finished 2Q14 with \$33.5 million in cash on its balance sheet, which management expects should provide sufficient funding beyond its Phase III data top-line SEAMLESS data read out and into 2H15. The company will conduct a Phase IIb randomized, controlled clinical trial (RCT) of sapacitabine alternating with low dose chemotherapy (Ara-C) versus an active control of low dose Ara-C. Approximately 250 patients will be enrolled in the study. The company's Phase III trial of sapacitabine as front line treatment for elderly patients with newly diagnosed acute myeloid leukemia (AML), SEAMLESS, is fully funded to completion. R&D expense for the quarter was \$4.5 million, in-line with our estimate and up \$1.9 million YOY. The increase from 2Q13 was primarily attributed to increased SEAMLESS costs associated with the expansion of the trial into Europe. We are raising our 2014 and 2015 EPS estimates to a loss of \$0.93 and a loss of \$0.92 from a loss of \$0.96 and a loss of \$0.94, respectively. We continue to believe investors should focus on the progress of the company's pipeline and not the quarterly results at this time.
- Sapacitabine Trial Updates.** On the 2Q14 earnings call, management announced that the SEAMLESS trial has reached 70% enrollment and surpassed 300 patients. The enrollment of the 300th patient triggered a Data Safety Monitoring Board (DSMB) trial safety review which we expect to be initiated imminently. In addition, we expect the DSMB interim analysis for futility to occur by late 2014 or early 2015. Enrollment remains on track to be completed by the end of 2014 with the top-line data readout expected for 2H15. In addition, management announced that they have initiated a feasibility study for its planned Phase IIb. The study should start enrollment in 1H15, with enrollment expected to take about 15 months. Topline data is projected for 2016-2017.
- Maintaining BUY Rating and Price Target.** Our \$10 price target is based on the NPV of our probability-adjusted forecasts for sapacitabine. We project that sales in front-line treatment of AML in elderly (age 70 years and above) could reach peak sales of almost \$400 million. As the start of the Phase IIb is not expected until 2015, we have assigned a lower chance of approval for sapacitabine in MDS. However, we believe, if approved, that this indication offers blockbuster potential.

Earnings Estimates: (per share)

| (Dec) | 1Q | 2Q | 3Q | 4Q | FY | P/E |
|---------------|--------|--------|-------|-------|-------|-----|
| FY_15E | NA | NA | NA | NA | -0.92 | NM |
| FY_14E | -0.25A | -0.22A | -0.23 | -0.23 | -0.93 | NM |
| FY_13A | -1.18 | 0.10 | -0.32 | -0.19 | -1.28 | NM |
| FY_12A | -0.40 | -0.45 | -0.25 | -0.59 | -1.68 | NM |

Source: Laidlaw & Company estimates

Healthcare / Biotechnology

Ticker: **CYCC**
 Rating: **Buy**
 Price Target: **\$ 10.00**

Trading Data:

| | |
|--------------------------|---------|
| Last Price (08/12/2014) | \$ 3.24 |
| 52-Week High (9/20/2013) | \$ 5.50 |
| 52-Week Low (8/14/2013) | \$ 2.75 |
| Market Cap. (MM) | \$ 73 |
| Shares Out. (MM) | 23 |

Edward White

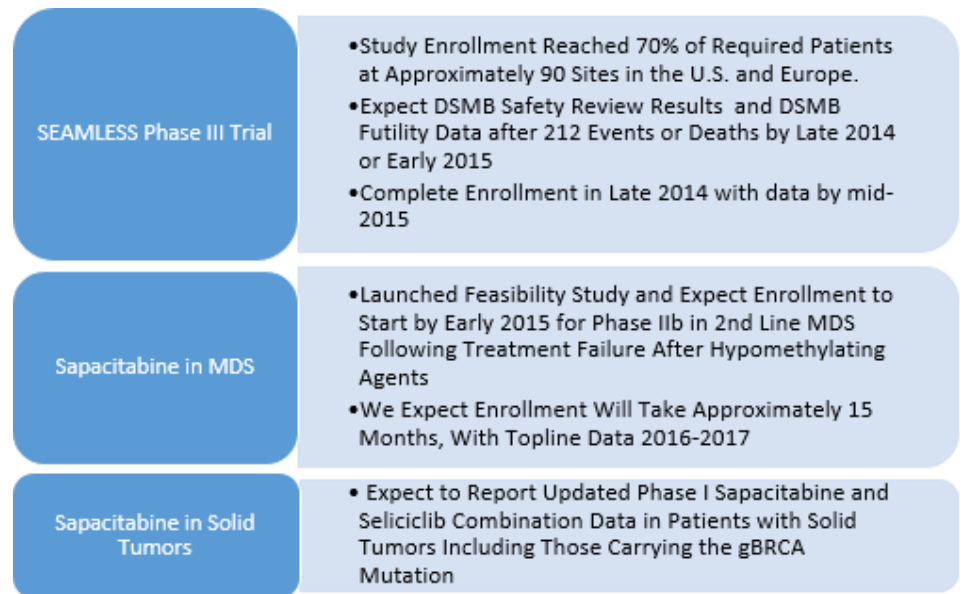
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Figure 1: Expected Sapacitabine Catalysts



Source: Company reports, Laidlaw & Co. Estimates

Risks to Owning the Stock

There are many standard risks for development stage biotechnology companies that hold true for the entire industry. There are development risks associated with preclinical and clinical studies, and potential delays in the start of trials. There is regulatory risk that the company will be unable to receive regulatory approvals for drugs or that regulatory approval may be delayed. Manufacturing risks are associated with the upgrading of facilities from clinical study production to commercial production. There is also commercial risk for a company to successfully market and sell its drug or drugs. Other risks include financing risk, currency risk, potential governmental price controls, and IP (generic) risks. The stock of biotechnology companies, like all publically traded companies, is subject to market volatility and liquidity risks if there are small trading floats. Cyclacel is susceptible to all of these risks.

Other downside risks specific to Cyclacel include the likelihood of the need to sell more stock to raise capital for the continuation of the company's clinical trials, the timing of regulatory submission and approval, and the ultimate market potential and expectations for the company's drugs. The majority of the value of the stock is hinged on a binary event, the success of the Phase III SEAMLESS trial in the front-line treatment of elderly patients with newly diagnosed AML. However, if the SEAMLESS trial is not successful, the company could still develop sapacitabine for the treatment of patients with MDS.

Figure 2: Income Statement

| Cyclacel Pharmaceuticals <i>Income Statement (000s, except per share data)</i> | FY 2013 | | | | FY 2014E | | | | FY_12 Dec | FY_13 Dec | FY_14E Dec | FY_15E Dec |
|---|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|
| | Q1_13 Mar | Q2_13 Jun | Q3_13 Sept | Q4_13 Dec | Q1_14 Mar | Q2_14 Jun | Q3_14E Sept | Q4_14E Dec | | | | |
| Product Sales, net | - | - | - | - | - | - | - | - | - | - | - | - |
| Collaboration and research and development revenue | - | - | - | - | - | - | - | - | - | - | - | - |
| Grant revenue | 212 | 264 | 309 | 299 | 396 | 356 | 150 | 150 | 69 | 1,084 | 1,052 | 500 |
| Total Revenues | 212 | 264 | 309 | 299 | 396 | 356 | 150 | 150 | 69 | 1,084 | 1,052 | 500 |
| <i>Operating expenses:</i> | | | | | | | | | | | | |
| General and administrative | 2,683 | 1,787 | 1,529 | 1,782 | 1,462 | 1,386 | 1,567 | 1,853 | 8,580 | 7,781 | 6,269 | 6,582 |
| Research and development | 1,580 | 2,631 | 4,575 | 2,491 | 4,344 | 4,545 | 4,800 | 4,400 | 6,592 | 11,277 | 18,089 | 19,717 |
| Total Operating Expenses | 4,263 | 4,418 | 6,104 | 4,273 | 5,806 | 5,931 | 6,367 | 6,253 | 15,172 | 19,058 | 24,358 | 26,299 |
| Operating Income/(loss) | (4,051) | (4,154) | (5,795) | (3,974) | (5,410) | (5,575) | (6,217) | (6,103) | (15,103) | (17,974) | (23,306) | (25,799) |
| <i>Other Income (expense):</i> | | | | | | | | | | | | |
| Non-cash consideration with stock purchase agreement | - | - | - | (98) | - | - | - | - | (423) | (98) | - | - |
| Change in valuation of Economic Rights | 570 | - | - | - | - | - | - | - | (23) | 570 | - | - |
| Change in valuation of financial instruments associated with stock purchase agreement | - | - | - | - | - | - | -64 | - | - | - | -64 | - |
| Change in valuation of other liabilities measured at fair value | - | - | - | - | (47) | 20 | - | - | 51 | - | (27) | - |
| Foreign exchange gain/(loss) | 120 | (101) | 25 | 18 | 10 | (43) | - | - | 292 | 62 | -33 | - |
| Interest income | 1 | 3 | 8 | 1 | 1 | 1 | 2 | 1 | 22 | 13 | 5 | 5 |
| Interest expense | - | - | - | - | - | - | - | - | - | - | - | - |
| Other income | 4 | 5,500 | 16 | 27 | - | 26 | - | - | 77 | 5,547 | 26 | - |
| Total other income (expense) | 695 | 5,402 | 49 | (52) | (36) | (60) | 2 | 1 | (4) | 6,094 | (93) | 5 |
| Income (loss) from continuing operations before taxes | (3,356) | 1,248 | (5,746) | (4,026) | (5,446) | (5,635) | (6,215) | (6,102) | (15,107) | (11,880) | (23,335) | (25,794) |
| <i>Tax: (%)</i> | <i>NM</i> | <i>NM</i> | <i>NM</i> | <i>NM</i> | <i>NM</i> | <i>NM</i> | <i>NM</i> | <i>NM</i> | <i>NM</i> | <i>NM</i> | <i>NM</i> | <i>NM</i> |
| Income tax benefit (expense) | 258 | 230 | 730 | 452 | 569 | 816 | 975 | 875 | 1,351 | 1,670 | 3,235 | 3,300 |
| Net income (loss) | (3,098) | 1,478 | (5,016) | (3,574) | (4,877) | (4,819) | (5,240) | (5,227) | (13,756) | (10,210) | (20,100) | (22,494) |
| (Loss) income from discontinued operations, net of tax | 16 | 14 | 12 | 15 | 8 | 7 | 12 | 30 | 570 | 57 | 57 | - |
| Deemed dividend on convertible exchangeable preferred shares | (8,366) | - | (661) | - | - | - | - | - | - | (9,027) | - | - |
| Dividend on convertible exchangeable preferred shares | (122) | (63) | (63) | (50) | (50) | (50) | (50) | (50) | (728) | (298) | (200) | (200) |
| Net loss applicable to common shareholders | (11,570) | 1,429 | (5,728) | (3,609) | (4,919) | (4,862) | (5,278) | (5,247) | (13,914) | (19,478) | (20,243) | (22,694) |
| Diluted EPS | (1.18) | 0.10 | (0.32) | (0.19) | (0.25) | (0.22) | (0.23) | (0.23) | (1.68) | (1.28) | (0.93) | (0.92) |
| GAAP Weighted Diluted Shares outstanding (000s) | 9,790.5 | 13,927.4 | 17,788.6 | 19,037.9 | 19,530.3 | 22,582.3 | 22,582.3 | 22,582.3 | 8,291.8 | 15,158.2 | 21,819.3 | 24,676.3 |
| Weighted Diluted Shares YOY change (%) | 25.1% | 65.2% | 111.0% | 125.9% | 99.5% | 62.1% | 26.9% | 18.6% | 15.4% | 82.8% | 43.9% | 13.1% |

Source: Bloomberg LP; Company reports; Laidlaw & Company estimates

DISCLOSURES:

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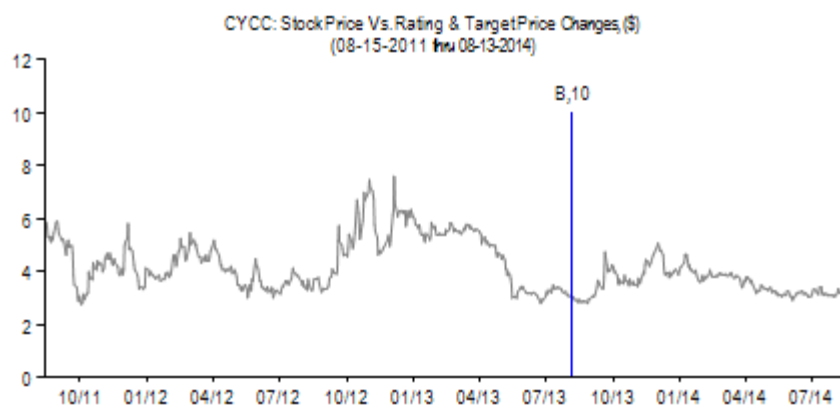
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Additional information available upon request.

‡ Laidlaw & Company has received compensation from the subject company for investment banking services in the past 12 months and expects to receive or intends to seek compensation for investment banking services from the company in the next three months.

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3 Year Rating Change History

| Date | Rating | Closing Price (\$) |
|------------|---------|--------------------|
| 08/06/2013 | Buy (B) | 3.06 |

3 Year Price Change History

| Date | Target Price (\$) | Closing Price, (\$) |
|------------|-------------------|---------------------|
| 08/06/2013 | 10.00 | 3.06 |

Source: Laidlaw & Company

Created by: Blue-Compass.net

| Laidlaw & Company Rating System* | | % of Companies Under Coverage With This Rating | % of Companies for which Laidlaw & Company has performed services for in the last 12 months | |
|----------------------------------|---|--|---|-----------|
| | | | Investment Banking | Brokerage |
| Strong Buy (SB) | Expected to significantly outperform the sector over 12 months. | 0.00% | 0.00% | 0.00% |
| Buy (B) | Expected to outperform the sector average over 12 months. | 94.74% | 31.58% | 10.53% |
| Hold (H) | Expected returns to be in line with the sector average over 12 months. | 5.26% | 0.00% | 0.00% |
| Sell (S) | Returns expected to significantly underperform the sector average over 12 months. | 0.00% | 0.00% | 0.00% |

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