YM BioSciences

YM : TSX : C$6.20
YMBA : AIM

BUY ↑
Target: C$7.00

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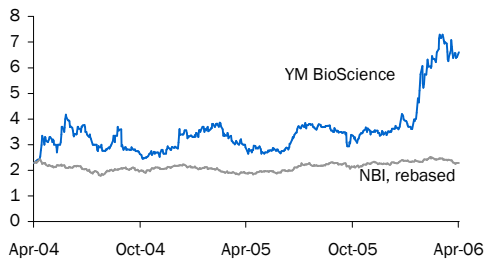
COMPANY STATISTICS:

52-week Range:	C$2.65-7.29
Avg. Daily Vol. (000):	69.5
Market Capitalization (M):	316.3
Shares Out. (M) basic:	51.0
Return:	12.9%
Long-term Debt (M):	0.0
Net Debt:	(30.6)

EARNINGS SUMMARY:

FYE Jun	2005A	2006E	2007E
Revenue (C$M)	0.75	0.70	0.40
EBITDA (C$M)	(16.40)	(25.86)	(27.60)
EBIT (C$M)	(16.55)	(26.80)	(28.47)
Pre-tax profit (C$M)	(15.86)	(25.09)	(27.25)
EPS (pre-ex) (C$)	(0.43)	(0.53)	(0.53)
PE	N/M	N/M	N/M
EV/Revenue	98.3	105.0	183.7

SHARE PRICE PERFORMANCE:



COMPANY SUMMARY:
YM BioSciences has a therapeutic focus on oncology. Its business model is to in-license therapeutics and advance them along the regulatory and clinical pathways ahead of partnering for commercialisation purposes. The company has four compounds in late clinical trials: Tesmilifene, TheraCIM, AeroLEF (from Delex) and Norelin.

All amounts in C$ unless otherwise noted.

Life Sciences -- Emerging Therapeutics

A RISK WORTH TAKING

Event

We are upgrading our recommendation on YM BioSciences to BUY from Hold. This is a valuation-driven upgrade after the recent rather sharp decline in the stock price, and we now believe the investment case offers a more compelling near-term opportunity.

Impact

The **investment case remains driven by the prospects for Tesmilifene, the company's lead oncology compound which is in pivotal Phase 3 trials** for the treatment of metastatic recurrent breast cancer. The trials are being run in combination with epirubicin, and a previous Phase 3 trial has shown a greater than 50% increase in overall survival when adding Tesmilifene to the protocol. The study is being run under an SPA from the FDA, and if the trial shows a similar result to that shown in the previous trial, YM believes that the first planned interim analysis of the data may be enough for regulatory submission. The company has indicated that this **data point ought to be available mid year 2006**, and while we believe the trial will be a success, any disappointment in terms of outcome or timing will be viewed negatively by the market. The trial is scheduled to read-out final data in mid 2007.

Valuation

Our valuation of C$7.00 per share is driven by a 70% chance of success of Tesmilifene at the first analysis. Raising this to 100% would boost the valuation to around C$9.00 per share, all else being equal. Should the first analysis fail to generate a statistical result, our valuation would drop to C$6.40 as the product launch would be delayed by one year. While the sentiment hit might be significantly greater, our confidence in the drug's ultimate prospects limits the valuation downside, in our view.

Investment risks

As with all drug development investments, there is a risk that YM's compounds may not succeed through the development process, or may disappoint commercially.

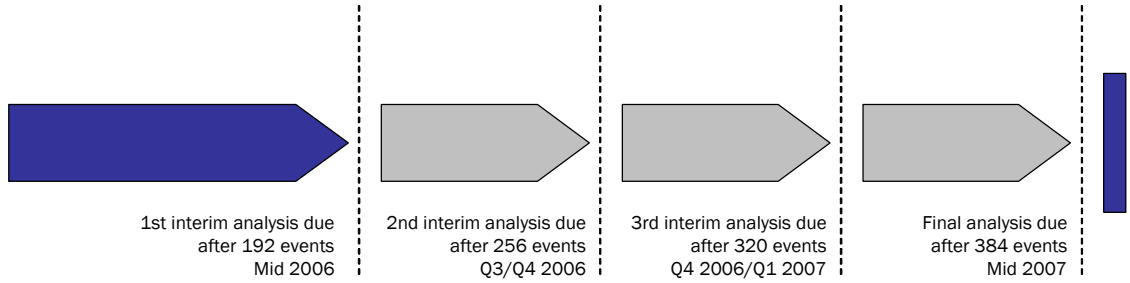
TESMILIFENE REMAINS THE KEY

The key to YM's investment case remains the Phase 3 trial of Tesmilifene in combination with epirubicin for metastatic breast cancer. Recruitment of 700 patients into the trial has completed, and the first interim results could be available in the middle of 2006.

The trial is being run under a special protocol assessment (SPA) from the FDA – with an endpoint of a significant improvement in overall survival. A previous Phase 3 trial has shown a greater than 50% improvement in overall survival of adding tesmilifene to anthracyclines over the effect of anthracyclines alone.

A planned interim analysis is scheduled once 192 events (deaths) have occurred in the trial, which management has flagged is likely to occur in the middle of 2006. If the efficacy of the first Phase 3 is mirrored in the current trial, YM believes that the design will have sufficient power to yield a significant result at this point. YM anticipates having tesmilifene on the market during late 2007, and we have estimated first revenues in fiscal 2008[1]. A series of planned interim analyses may occur should preceding analyses fail to show a significant overall survival benefit of adding tesmilifene to epirubicin. Our forecasts assume that the first interim analysis will show a statistically significant benefit, based on the data generated by tesmilifene to date. Furthermore we assume that YM will submit the data to the FDA at that point, and will not need to wait for the trial to run its complete course.

Figure 1: Expected Tesmilifene timelines



Source: Canaccord Adams

However, we believe that any negative news flow on the stock, such as a delay to the proposed interim analysis timelines, could be perceived as a significant negative by the market. Should the first interim analysis fail to yield a statistically significant result in favour of Tesmilifene, but be allowed to continue on safety grounds, there will be two further analyses before the final data read-out scheduled for the middle of 2007 after 384 events. Should the trial run its full course, this would add about a year to the development timelines and delay launch to 2009.

Partnership ahead of commercialisation

We believe that YM will seek to monetise tesmilifene ahead of product launch, and may seek a commercialisation partner in the near-term – perhaps once the first interim analysis is carried out in the middle of 2006. We have not included any upfront or milestone

[1] YM has a June year end

payments into our YM forecasts, and hence these would represent upside to our numbers. However, our valuation assumes a 25% royalty rate to YM on product sales.

Revenue targets

Tesmilifene's initial target population (should the Phase 3 trial read out positively) will be the patient population using anthracyclines (doxorubicin and epirubicin) within their cancer-treatment regimen. Both doxorubicin and epirubicin are widely prescribed drugs in the treatment of cancer, and our initial target for penetration is 35% of patients in the US. Assuming a treatment price per patient per year of US$15,000, our peak revenue target is for US$240 million.

Figure 2: Tesmilifene revenue potential - US metastatic breast cancer

Tesmilifene	2006	2007	2008	2009	2010	2011	2012	2013	2014
US MBC patients	47,284	47,047	46,812	46,578	46,345	46,113	45,883	45,653	45,425
growth	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)	(0.5%)
Penetration	0%	0%	5%	10%	20%	30%	35%	35%	35%
Treated	0	0	2,341	4,658	9,269	13,834	16,059	15,979	15,899
Cost (US$)	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000	15,000
Revenues (US$M)	**0.0**	**0.0**	**35.1**	**69.9**	**139.0**	**207.5**	**240.9**	**239.7**	**238.5**

Source: Canaccord Adams estimates

Upside potential

These forecasts exclude potential from the non-US markets, and only include metastatic breast cancer. Significant upside could come from use in Europe and the rest of the world in metastatic breast cancer, and from the potential of other oncology indications. Our NPV valuation (see below) includes Tesmilifene's potential in the treatment of hormone refractory prostate cancer, but does not yet include any value for the potential use alongside Taxotere.

YM and Sanofi-Aventis are now running trials of Tesmilifene in combination with Taxotere. The primary endpoint of the trial is pharmacokinetics, and **data could be available later in 2006**. Should the combination of Tesmilifene and Taxotere be well tolerated, and the trial does not have to be stopped on safety grounds, data from the secondary endpoints of overall survival and progression-free survival could be available at the end of 2007. However, we believe it is prudent to only include additional upside once the drug has achieved success in the ongoing clinical programme.

VALUATION AND RECOMMENDATION

We continue to value YM BioSciences using our probability-weighted NPV (pNPV) model, and include the full dilutive effects of the DELEX acquisition as well as the recent equity raise and the acquisition of Eximias. We have made no changes to our valuation, and maintain our target price of C$7.00 per share. With 13% upside to the current price, we are upgrading our recommendation from Hold to BUY.

YM appears to have captured investors' imagination thus far during 2006, and despite the remaining significant risks around the Tesmilifene data (both in terms of timing and outcome) we believe that those risks are worth taking. While the Tesmilifene data mid-year

represents the significant inflexion point for the investment case, YM has the potential for further clinical news flow from the remainder of the projects in the pipeline.

Figure 3: YM BioSciences NPV analysis

Drug name	Indication	Status	Launch	Success?	Sales (US$M)	Royalty	Profitability	NPV (C$)
Tesmilifene/Epirubicin	Breast	Phase 3	2008	70%	240.0	25%	80%	4.60
Tesmilifene/Epirubicin	HRPC	Phase 2	2009	25%	70.0	25%	80%	0.42
Tesmilifene/Taxotere	Breast	Phase 2	2009	0%	250.0	25%	80%	0.00
Nimotuzumab (TheraCIM)	Glioma, Pancreatic	Phase 2/3	2008	25%	68.9	15%	70%	0.25
Norelin	HDPC	Phase 2	2009	10%	300.0	15%	90%	0.48
AeroLEF	Cancer pain	Phase 2	2008	40%	150.0	15%	100%	1.23
							Total	6.99

Source: Canaccord Adams estimates

The most important driver beyond Tesmilifene in our view is **AeroLEF**, an inhaled preparation of fentanyl. A first look at the Phase 2b results in post-op pain patients is due later in Q2/06. The primary endpoint for this study is the Summed Pain Relief plus Pain Intensity Difference (SPRID) scores during the first four hours after the start of the initial dose. Secondary endpoints include Time to Effective Pain Relief, as well as six safety endpoints. Should the interim analysis be positive, YM believes that the trial will be terminated for efficacy.

A number of **nimotuzumab** posters will be presented at the ASCO meeting in Atlanta, Georgia in early June. These papers will include the metastatic pancreatic cancer trial that has been run in Europe by Oncoscience, and an escalating dose trial in colorectal cancer patients. This latter presentation will be of key interest as focus will be on the degree of (or lack of) the rash associated with the EGFr antibody – all other EGFr antibodies are associated with a severe and often dose-limiting rash, and nimotuzumab has never shown such a side effect.

Valuation scenarios

The main driver of value in YM remains Tesmilifene and its commercial potential in the treatment of metastatic breast cancer. In the table below we have illustrated the effect of flexing our chance of success and peak sales assumptions on the resultant target price, keeping all else equal.

Figure 4: Valuation sensitivities around Tesmilifene

		Chance of success					
		50%	60%	70%	80%	90%	100%
Peak sales (US$m)	100	3.75	4.03	4.30	4.57	4.85	5.12
	150	4.44	4.85	5.26	5.67	6.08	6.49
	200	5.12	5.67	6.22	6.77	7.31	7.86
	250	5.81	6.49	7.18	7.86	8.55	9.23
	300	6.49	7.31	8.14	8.96	9.78	10.60
	350	7.18	8.14	9.10	10.06	11.01	11.97
	400	7.86	8.96	10.06	11.15	12.25	13.34

Source: Canaccord Adams estimates

Assuming 100% chance of success to make US$250 million in peak sales yields an implied valuation of C$9.23 per share, whereas keeping our chance of success estimate at 70% but

increasing our peak revenue estimate to US$400 million would yield an implied valuation of C$10.06 per share. Should the launch of Tesmilifene be delayed by one year (if the trial has to run its complete course, for example) then maintaining our forecasts for a 70% chance of success and peak sales of US$240 million would generate a downside valuation of C$6.40. While the initial sentiment hit for the perceived disappointment (failing to successfully meet the first interim analysis) might be significantly greater, we believe this offers downside protection in terms of valuation.

Figure 5: Summary sheet

Activity

YM Biosciences has a therapeutic focus on oncology. Its business model is to in-licence therapeutics and advance them along the regulatory and clinical pathways ahead of partnering for commercialisation purposes. The company has four compounds in late clinical trails: Tesmilifene, which is a chemopotentiator and is currently in pivotal trials TheraCIM, an antibody to EGFr for the use in cancers susceptible to radiation. AeroLEF is an inhaled preparation of fentanyl for cancer pain Norelin restricts the growth of sex-hormone dependent cancers

Profit and Loss forecasts

Year to Jun. C$ million	2005A	2006E	2007E	2008E
Milestones	0.00	0.00	0.00	0.00
Royalty incomes	0.00	0.00	0.00	24.12
Other	0.75	0.70	0.40	0.00
Revenues	**0.75**	**0.70**	**0.40**	**24.12**
CoGS	0.00	0.00	0.00	5.51
Gross Profit	**0.75**	**0.70**	**0.40**	**18.61**
Selling, Marketing	0.00	0.00	0.00	0.00
Licencing & Development	10.98	20.87	21.91	23.00
General and Administrative	6.31	6.63	6.96	7.31
EBIT	**(16.55)**	**(26.80)**	**(28.47)**	**(11.70)**
EBITDA	**(16.40)**	**(25.86)**	**(27.60)**	**(10.87)**
Net Financials etc	0.69	1.70	1.22	0.80
Profit Before Tax	**(15.86)**	**(25.09)**	**(27.25)**	**(10.90)**
Taxes	0.00	0.00	0.00	0.00
Minorities	0.00	0.00	0.00	0.00
Net Income	(15.86)	(25.09)	(27.25)	(10.90)
Net Income (pre ex)	**(15.86)**	**(25.09)**	**(27.25)**	**(10.90)**
EPS (C$)	(0.43)	(0.53)	(0.53)	(0.20)
EPS (pre ex, C$)	**(0.43)**	**(0.53)**	**(0.53)**	**(0.20)**

Cash Flow forecasts

Year to Jun. C$ million	2005A	2006E	2007E	2008E
Net Profit	**(15.86)**	**(25.09)**	**(27.25)**	**(10.90)**
Depreciation & Amortisation	0.15	0.94	0.87	0.84
Change in working capital	0.71	1.59	2.12	(1.62)
Net interest	(0.69)	(1.70)	(1.22)	(0.80)
Minority Interest	0.00	0.00	0.00	0.00
FA Capex	(0.00)	(0.00)	(0.00)	(0.00)
Other receipts/(payments)	0.00	0.00	0.00	0.00
Net cash flow	**(15.69)**	**(24.27)**	**(25.48)**	**(12.50)**

Growth Analysis

Year to Jun. C$ million	2005A	2006E	2007E	2008E
Revenues	N/A	(6%)	(43%)	5930%
EBITDA	100%	58%	7%	(61%)
EBIT	102%	62%	6%	(59%)
EPS	27%	24%	0%	(62%)
Adjusted EPS growth	27%	24%	0%	(62%)
Revenue 5 yr CAGR		N/M	N/M	N/M
EBIT 5 yr CAGR		27%	34%	15%
EPS 5 yr CAGR		(2%)	2%	(19%)

Margin Analysis

Year to Jun. C$ million	2005A	2006E	2007E	2008E
Gross	100%	100%	100%	77%
Marketing & Sales (% sales)	0%	0%	0%	0%
R&D	1468%	2981%	5477%	95%
EBITDA	(2192%)	(3694%)	(6901%)	(45%)
EBIT	(2212%)	(3828%)	(7118%)	(49%)
Net (pre-ex)	(2120%)	(3585%)	(6813%)	(45%)
Tax Rate	0%	0%	0%	0%

Consolidated balance sheet

Year to Jun. C$ million	2005A	2006E	2007E	2008E
Cash and cash equivalents	30.57	56.01	31.76	26.28
Total Current Assets	32.32	57.94	31.80	28.69
Long Term Assets	0.00	0.00	0.00	0.00
Fixed Assets	5.87	4.94	4.08	3.25
Total Assets	**38.20**	**62.88**	**35.88**	**31.94**
Short term debt	0.00	0.00	0.00	0.00
Total Current Liabilities	4.03	5.81	6.06	6.82
Long Term Liabilities	0.00	0.00	0.00	0.00
Total Shareholder's Equity	34.17	57.07	29.82	25.12
Total Liabilities & Equity	**38.20**	**62.88**	**35.88**	**31.94**

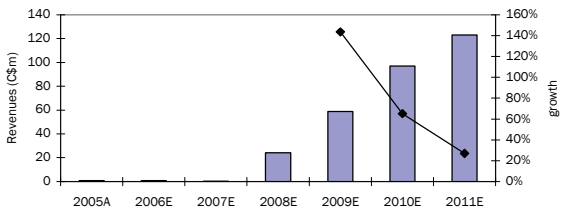
Revenue by Division

The company is yet to generate meaningful revenues

Revenue by Geography

The company is yet to generate meaningful revenues

Revenue Momentum



Valuation Ratios

Year to Jun. C$ million	2005A	2006E	2007E	2008E
P/E	N/M	N/M	N/M	N/M
P/FCF	N/M	N/M	N/M	N/M
P/Book	6.7	4.0	7.7	9.1
Yield	0.0	0.0	0.0	0.0
EV/Sales	98.3	105.0	183.7	3.0
EV/EBITDA	N/M	N/M	N/M	N/M
EV/EBIT	N/M	N/M	N/M	N/M

Source: Company reports, Canaccord Adams estimates

INVESTMENT RISKS

There are numerous risks inherent in making investments in the life sciences and biotechnology space, and these can be broadly captured as technical and commercial risks.

- **Technical risks**: Not all therapeutics will reach the market, as regulators require statistically significant evidence of safety and efficacy before approving a therapeutic for marketing. Industry estimates suggest that around one in 10 candidates that enter clinical trials will reach the market.
- **Commercial risks**: Once a therapeutic is on the market, it may face a number of threats that prevent it from reaching its potential sales. These may be pricing or marketing related (with too high a cost, or too little promotion) or from unforeseen competitive pressures.

In our opinion, the key determinant in the success of a life sciences or biotechnology company is the management team. A good team will need to manage the risks inherent in the industry, and not merely avoid them, and a management team that fails to manage risks appropriately can have an adverse effect on the business' future.

An analyst has visited the company's headquarters in Toronto, ON. No payment or reimbursement was received from the issuers for the related travel costs.

Figure 6: YMB price target and recommendation record

Date published	Price	Target price	Recommendation
May 3, 2006	C$6.20	C$7.00	BUY
April 19, 2006	C$6.60	C$7.00	HOLD
March 24, 2006	C$7.00	C$7.66	HOLD
January 11, 2006	C$4.05	C$6.94	BUY
November 15, 2005	C$3.50	C$6.53	BUY
September 29, 2005	C$3.50	C$6.53	BUY
September 28, 2005	C$3.50	C$6.53	BUY
September 16, 2005	C$3.65	C$6.53	BUY
May 26, 2005	C$2.78	C$5.48	BUY
February 8, 2005	C$3.62	C$5.35	BUY
October 22, 2004	C$2.55	C$5.00	BUY
October 1, 2004	C$2.80	C$5.00	BUY
September 8, 2004	C$3.72	C$5.20	BUY
July 15, 2004	C$3.65	C$5.20	BUY

Source: Canaccord Adams

APPENDIX: IMPORTANT DISCLOSURES

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Price Chart:*

	Date	Analyst	Rating	Target Price
1)	07/15/04	KK	Buy	5.20
2)	10/01/04	KK	Buy	5.00
3)	02/08/05	KK	Buy	5.35
4)	05/26/05	KK	Buy	5.48
5)	09/28/05	KK	Buy	6.53
6)	01/11/06	KK	Buy	6.94
7)	03/24/06	KK	Hold	7.66

* Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:
Global Stock Ratings
(as of 1 April 2006)

	Coverage Universe		IB Clients
Rating	#	%	%
Buy	287	54.9%	36.6%
Speculative Buy	55	10.5%	49.1%
Hold	163	31.2%	23.3%
Sell	18	3.4%	27.8%

523 100.0%

Canaccord Adams Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.
HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.
SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

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Company	Disclosure
YM BioSciences	1A, 2, 3, 4, 5, 7

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