Zacks Small-Cap Research

August 29, 2016
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Spotlight Innovation (STLT-OTC)

STLT: Spotlight To Help Fund Breakthrough Zika Drug Research

Average EV and development phase rating of our 13 comparable companies is $34.2 million and 3.0, respectively. Which equates to $11.4 million (= $34.2M / 3.0) of EV for each development stage. As STLT is in the preclinical to phase I stage, we assign an EV of approximately $23 million (= 2 x $11.4M), which equates to a market value of approximately $21 million or ~ $1.50/share.

Current Price (08/29/16)	$0.59
Valuation	**$1.50**

OUTLOOK

Spotlight is involved in identifying, acquiring/licensing and developing early-stage life sciences-related technologies and products. They recently acquired two separate companies which brought on promising early-stage clinical development of compounds that may have applications in the treatment of cancer, kidney disease and infectious diseases. One of the main focuses is on development of certain toxins found in snake venom for therapeutic applications in cancer and chronic kidney disease (CKD). These toxins have shown promise in early stage studies as cancer-fighting and pain relieving agents. STLT expects to initiate additional clinical trials in the near-term. The other major focus is with a platform technology called Immunoplex which is being developed to improve vaccine efficacy by using more efficient targeting and delivery. Immunoplex is in preclinical development for certain infectious diseases including influenza as well as for cancers of the breast, prostate and skin (melanoma). They recently entered Sponsored Research Agreement to help fund a breakthrough in Zika drug research with Florida State University.

SUMMARY DATA

52-Week High	**$1.22**
52-Week Low	**$0.34**
One-Year Return (%)	**-55.00**
Beta	**-1.24**
Average Daily Volume (sh)	**2,965**
Shares Outstanding (mil)	**14**
Market Capitalization ($mil)	**$6**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2016 Estimate	**-1.2**
P/E using 2017 Estimate	**-0.8**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**Small-Blend**
Industry	**Med/Dental-Supp**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in '000s of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	0 A	0 A	0 A	0 A	0 A
2014	0 A	0 A	0 A	0 A	0 A
2015	0 A	0 A	0 A	0 E	0 E
2016					0 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	-$0.01 A	-$0.01 A	-$0.01 A	-$0.83 A	-$0.96 A
2014	-$0.01 A	-$0.13 A	-$0.07 A	-$0.07 A	-$0.28 A
2015	-$0.07 A	-$0.07 A	-$0.15 A	-$0.09 E	-$0.39 E
2016					-$0.36 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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WHAT'S NEW…

Spotlight Teams With Researchers Credited With Breakthrough Zika Drug Findings

Researchers from Florida State University, Johns Hopkins University and the National Institutes of Health, interested in shortening time-to-market of a potential Zika therapy, looked at 6,000 drug compounds which had either already been approved by FDA or were in clinical trials and may have efficacy against the virus.

Led by a team including Dr.Hengli Tang, Professor of Biological Science at Florida State University, Guo-Li Ming of Johns Hopkins and Hongjun Song of the NIH, the scientists found two classes of drugs - one that hinders replication of the virus and another that prevents it from killing brain cells – has having promise in treating Zika.

They further identified that Nicolsamide, an already available drug used to fight tapeworm (and which has also shown promise against MRSA), as a potentially effective in suppressing Zika replication - it has also shown to be safe for pregnant women, an important attribute given Zika's association with severe birth defects. Another compound, emricasan, which is being evaluated by Conatus Pharmaceuticals (CNAT) for the treatment of liver disease, was found to prevent Zika from killing brain cells.

The findings were published today (August 29) in the journal Nature Medicine. The researchers hope that by concentrating on already commercialized drugs and compounds in late stage development that their work will result in a Zika therapy that can rapidly come to market and help to head off the escalating spread of the virus. They expect to soon begin animal testing of these drugs.

And Spotlight will be involved with helping to fund the related research – which STLT announced in a recent press release (http://prn.to/2bMD7Oh), noting that they have entered into a Sponsored Research Agreement with Florida State University to support Dr. Tang's research into development of drugs to fight Zika. While the press release did not provide specifics of terms of the agreement, Geoffrey Laff, STLT's V.P. of Scientific Strategy, notes in an article published today in the Wall Street Journal (http://on.wsj.com/2bw1PBF) that, it "amounts to several years of funding."

Dr. Laff joined Spotlight in July. Other recent events include progress with establishment of a drug production facility and further development progress of Immunoplex in cancer therapeutics.

Dr. Laff, who joined Spotlight in July, is responsible for STLT's R&D strategy, evaluation of new potential acquisitions and will assist with clinical management. He brings ~20 years of experience in drug development, biotechnology, drug research and healthcare-related investment. His industry work has largely focused on oncology and immunotherapy - Spotlight's therapeutic focus area – and has involved advising large pharma including Pfizer (PFE), Bristol-Myers Squibb (BMY), Sanofi (SNY) and Boehringer Ingelheim. Dr' Laff's full bio (from STLT's July 14th press release is below).

Dr. Laff is a life sciences industry veteran with nearly 20 years of experience in healthcare venture capital, public equity investment, biotechnology, drug development, market research, and medical communications. Specializing in oncology and immunology, he has advised leading pharmaceutical companies including Pfizer, Bristol-Myers Squibb, Sanofi and Boehringer Ingelheim.

After earning a B.S. in Biology and a Ph.D. in Molecular Cell Biology from Yale University, Dr. Laff was a postdoctoral research fellow at Harvard Medical School. While at Yale he received the Sterling Prize Fellowship and the Dwight Hall Humanitarian Service Award.

Drug Production and Drug Development Facility…

In June STLT announced that it was in the process of finalizing an agreement with Maitland Labs, of Orlando, FL, to establish cGMP drug production and product development facilities at Maitland's sterile fill production plant. STLT noted that they expected construction would be completed and the facility operational by September. Spotlight will use the facility to support production requirements of its preclinical and (expected future) clinical trials of its immunotherapy candidates.

Immunoplex Immunotherapy Development Progress…

As a reminder, in June 2015 Spotlight acquired Memcine Pharmaceuticals, Inc., a biotechnology company located in the University of Iowa Research Park. Memcine has a platform technology called Immunoplex which is being

developed to improve vaccine efficacy by using more efficient targeting and delivery. Immunoplex is in preclinical development for certain infectious diseases including influenza as well as for cancers of the breast, prostate and skin (melanoma).

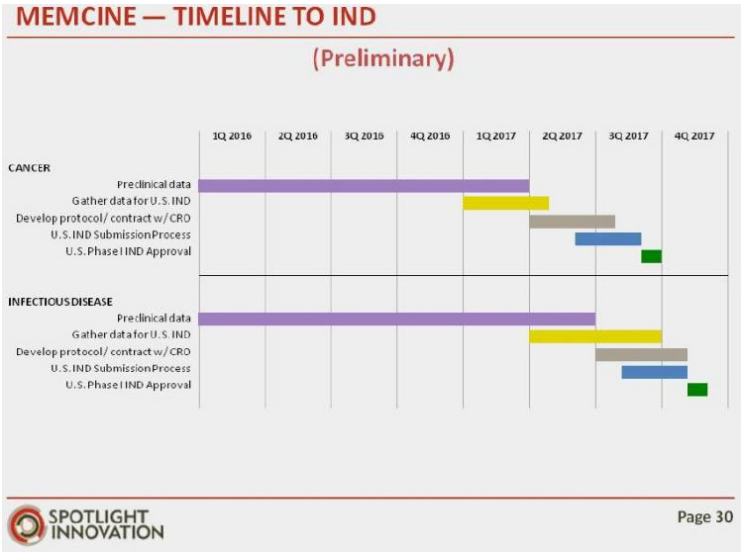
The heart of the technology is based on the use of a proprietary peptide/epitope tag which labels antigens and tumor cells of interest and to which a universal antibody binds to - this is what they term the "Immunoplex". The Immunoplex then delivers the antigen to immune cells and triggers a robust immune response.

The benefit of this technique compared to traditional vaccines, per Memcine, is that Immunoplex reduces exposure to potentially harmful adjuvants and can be delivered to mucosal surfaces without the use of needles. Some adjuvants have been linked to certain diseases in animal testing such as rheumatoid arthritis and cancer. And recently, controversy over certain adjuvants used in childhood vaccines and their potential association with autism has been a mainstream topic. In addition to lower exposure to adjuvants, Immunoplex also potentially significantly reduces the cost and time to develop a complex vaccine, which traditionally requires the identification and extensive testing of several antibodies.

Memcine has recently made additional development progress of Immunoplex as a potential cancer therapy, announcing in April that they demonstrated that the epitope tag can successfully attach to tumor cells in a consistent and reproducible manner. As reproducibility is an indication that the method of action can be replicated and a critical step in the development process, we view this as a significant milestone.

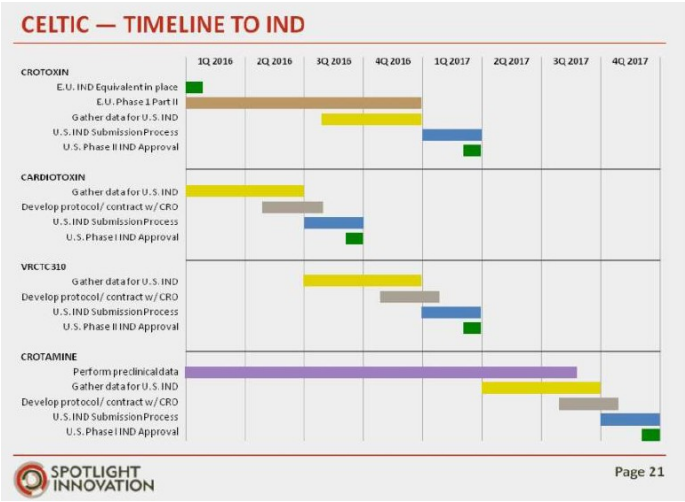
In mid-March STLT penned a research agreement with the University of Alabama-Birmingham to conduct preclinical mouse studies with the Immunoplex immunotherapy technology for metastatic breast cancer. Assuming positive results, the studies will be used to support an Investigational New Drug (IND) application to FDA. STLT expects these preclinical studies to take approximately 6 months.

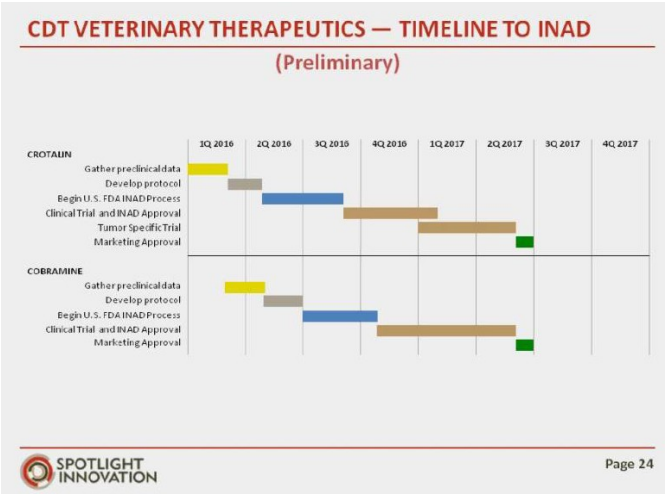
In February STLT published an investor presentation which included potential (and preliminary) timelines of its various pipeline programs. Below is the pipeline chart which relates to Memcine. We reiterate, however, that these are preliminary timelines, subject to change and were released prior to the April Immunoplex immunotherapy preclinical data (i.e. – the chart timelines are subject to updating). **The agreement with Maitland Labs for a production facility, could be a catalyst in moving STLT's various preclinical programs along.**



Updated Celtic Biotech and CDT Veterinary Timelines

The February presentation also included potential and preliminary timelines related to Celtic Biotech's candidates, including Crotoxin, Cardiotoxin, VCTC310 and Crotamine, which are being developed for various human cancers, and for CDT Veterinary, which will look to develop Crotalin and Cobramine in cancer and kidney disease applications in animals, including for dogs and cats.





Beefed-Up Board of Directors

John M. Krohn is a Senior Financial Services Advisor with Principal Financial Group, a global investment management leader. He is Spotlight Innovation's largest investor. Mr. Krohn is also an investor in and a board member of other companies. Prior experience includes Chief Financial Officer positions with two central Iowa companies, Vice President of Operations for Economy Data Products from 1994 to 1996, and Controller for Seneca Corporation, a Des Moines, Iowa-based petroleum services company from 1986 to 1994. Mr. Krohn, a CPA, is a 1981 graduate of the University of Iowa with a degree in Accounting.

Craig A. Lang is President of The Prairie Strategy Group, a policy, communication and logistics consulting company. He is also President of Windward Iowa, an organization advocating for clean energy. From 2001 to 2011 he was Chairman of the Board of FBL Financial, an insurance and annuity company. From 2005 to 2009 Mr. Lang was the Lead Director and Chair of the Compensation Committee of Iowa Telecom. From 2001 to 2011 he was President of the Iowa Farm Bureau Federation, Iowa's largest general farm organization which promotes policies adopted by its membership. Prior to the above, Mr. Lang was Chairman of the Board of Iowa's Grow Values Fund, a $100 million seed fund program supported by Iowa Economic Development. Mr. Lang received a Bachelors of Science degree from Iowa State University in 1973.

VALUATION

Given the pre-revenue stage of Spotlight, typical valuation methodologies such as P/E, P/EG, P/S and others which require financial metrics as components are unsuitable. As such, we believe the most appropriate valuation methodology is to compare STLT to other pre- (and very early) revenue stage companies focused on cancer therapeutics. Our list below does not include any that are involved with venom-based cancer therapeutics as there are none that we were able to find which are publicly traded and solely or almost entirely focused on that area. We note that most venom-based research is housed at academic institutions, private companies or very large, multi-disciplinary publicly traded companies - none of which are appropriate comps for STLT.

So we think our comparable cohort is a fair representation of mostly pure-play oncology-related therapy companies at various stages of development. We use a comparable enterprise value (EV) by ranking the development phase of each of the companies' main product candidates. Lowest ranking (1) is associated with preclinical stage while highest ranking (4) is associated with phase 3 clinical testing stage. See our "Key" for specifics of each rating's association to their respective development phase.

Average EV and development phase rating of the 13 comparable companies is $34.2 million and 3.0, respectively. Which equates to $11.4 million (= $34.2M / 3.0) of EV for each development stage. As STLT is in the preclinical to phase I stage, we assign an EV of approximately $23 million (= 2 x $11.4M), which equates to a market value of approximately $21 million or ~ $1.50/share.

The shares are very thinly traded and have recently priced at between $0.51 and $1.20. Float is listed at approximately 46% of o/s shares (6.7M of 14.3M). Our calculated fair value implies some upside in the most recent quoted price although the extremely low volume creates inherent risk of mispricing and potential difficulty in exiting an investment.

Company	Tkr	Mkt Cap (M)	EV (M)	Dvlpmt Phase	Dvlpmt Ph Rating
OXIS International Inc	OXIS	$12	$12	Preclinical	1
Cellectar Biosciences Inc	CLRB	$24	$17	Phase 1/2	2.5
OncoVista Innovative Therapies	OVIT	$16	$17	Phase 1/2	2.5
Cyclacel Pharmaceuticals Inc	CYCC	$20	N/A	Phase 1/2	2.5
Del Mar Pharmaceuticals Inc	DMPI	$19	$18	Phase 1/2	2.5
Bio-Path Holdings Inc	BPTH	$105	$96	Phase 2	3
ImmunoCellular Therapeutics Ltd	IMUC	$41	$9	Phase 2	3
OncoSec Medical Inc	ONCS	$84	$53	Phase 2	3
MEI Pharma Inc	MEIP	$57	N/A	Phase 2	3
CASI Pharmaceuticals Inc	CASI	$48	$45	Ph 1 thru 3	3
Celator Pharmaceuticals	CPXX	$78	$55	Phase 3	4
Onconova Therapeutics Inc	ONTX	$37	$16	Phase 3	4
Average		**$45**	**$34**		**2.8**

KEY:		
Development Phase	equates to	**Development Rating**
Preclinical		1
Phase 1		2
Phase 1/2		2.5
Phase 2		3
Phase 3		4

FINANCIAL MODEL

Spotlight Innovation, Inc.

	2014 A	Q1A	Q2A	Q3A	Q4E	2015 E	2016 E
Total Revenues	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
YOY Growth	-	-	-	-	-	-	-
COGS	$0.0	$0.00	$0.0	$0.0	$0.0	$0.0	$0.0
Gross Income	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Gross Margin	-	-	-	-	-	-	-
SG&A	$1,486.6	$649.5	$733.6	$1,799.5	$908.0	$4,090.6	$4,414.0
% SG&A	-	-	-	-	-	-	-
R&D	$0.0	$0.0	$3.7	$254.8	$148.0	$406.5	$447.0
% R&D	*#DIV/0!*	-	-	-	-	-	-
Operating Income	($1,486.6)	($649.5)	($737.2)	($2,054.3)	($1,056.0)	($4,497.1)	($4,861.0)
Operating Margin	-	-	-	-	-	-	-
Total Other Income (Expense)	($2,138.6)	($311.8)	($265.8)	($150.7)	($244.0)	($972.8)	($2,128.0)
Pre-Tax Income	($3,625.3)	($961.3)	($1,003.0)	($2,205.0)	($1,300.0)	($5,469.8)	($6,989.0)
Tax expense (benefit)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Preferred dividends	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Income to non-contrl interest	-$1.8	$0.2	-$1.3	-$21.1	$0.0	-$22.2	$0.0
Net Income	($3,623.5)	($961.6)	($1,001.8)	($2,183.8)	($1,300.0)	($5,447.7)	($6,989.0)
YOY Growth	*-46.8%*	*751.8%*	*-12.7%*	*184.9%*	*-18.5%*	*50.3%*	*28.3%*
Net Margin	-	-	-	-	-	-	-
EPS	($0.28)	($0.07)	($0.07)	($0.15)	($0.09)	($0.39)	($0.36)
YOY Growth	*-71.0%*					*40.0%*	*-8.5%*
Diluted Shares O/S	13,007	13,413	13,742	14,277	14,455	13,972	19,600

Brian Marckx, CFA

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LEADERSHIP

Management

Cristopher Grunewald
Chief Executive Officer
Mr. Grunewald is a financial executive and entrepreneur with background in the healthcare and biotechnology sectors, private equity and investment banking. He has been involved in all stages of the commercialization of healthcare IP developed by premiere research and development institutions.

Bill Pim, CPA
Chief Financial Officer
Mr. Pim, 61, has held senior financial positions at companies including: the West Des Moines, IA-based not-for-profit Iowa Foundation for Medical Care (now Telligen); Iowa Renewable Energy, located in Washington, IA; the North Liberty, IA-based Heartland Express transportation firm; and LearningRx franchise locations in Des Moines, IA area. He began his career at the Atlanta, Georgia accounting firm of Thompson and Reed. Mr. Pim holds a Bachelor of Science degree from the University of Iowa, and completed undergraduate coursework in Accounting and graduate MBA coursework at Georgia State University in Atlanta, GA.

Geoffrey Laff, PhD
Senior Vice President of Business Development
Dr. Laff is a life sciences industry veteran with nearly 20 years of experience in healthcare venture capital, public equity investment, biotechnology, drug development, market research, and medical communications. Dr. Laff holds a BS in Biology and a PhD in Molecular Cell Biology from Yale University, and was a postdoctoral research fellow at Harvard Medical School.

Dr. Paul F. Reid
Director of Product Development
President of Celtic Biotech Iowa, Inc
Dr. Reid has extensive experience in new drug/product development and clinical trial design. Expertise includes therapeutic product development, regulatory and clinical affairs, and manufacturing. BA in Microbiology from Trinity College, Ireland, and PhD in Neurobiochemistry from Imperial College, England.

Tony Vanden Bush, PhD
Manager of Product Development
Chief Scientific Officer of Memcine Pharmaceuticals
Dr. Vanden Bush has broad research experience with biochemical interactions and signal transduction pathways of immune cells to better understand immune cell functionality for the purpose of designing improved therapies to combat disease. BS in Molecular Biology and Biochemistry from the University of Wisconsin, and a PhD in Immunobiology from Iowa State University.

Rene Erickson
V.P. - Communications
Mr. Erickson has over three decades of corporate communications experience across diverse industries including healthcare, information technology, aviation and academia.

Mike Reysack
V.P. – Technology Acquisition
Mr. Reysack has an extensive background cultivating and managing relationships with stakeholders, including experience as a consultant and business strategist for venture and early stage companies, providing effective communications between companies and the financial community.

Board of Directors

Cristopher Grunewald

John M. Krohn
Senior Financial Services Advisor with Principal Financial Group, a global investment management leader. He is Spotlight Innovation's largest investor. Mr. Krohn is also an investor in and a board member of other companies. Prior experience includes Chief Financial Officer positions with two central Iowa companies, Vice President of Operations for Economy Data Products from 1994 to 1996, and Controller for Seneca Corporation, a Des Moines, Iowa-based petroleum services company from 1986 to 1994. Mr. Krohn, a CPA, is a 1981 graduate of the University of Iowa with a degree in Accounting.

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