Zacks Small-Cap Research

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Parnell Pharmaceuticals Holdings Ltd. (PARN-NASDAQ)

PARN: Voluntarily Moving From the Nasdaq to the OTC…

Based on our financial model that uses a EV/revenue multiple of 3.0x based on projected 2020 revenues, with an 18% discount rate, PARN is valued at $11/share. Additional upside to this valuation is possible from better than expected sales of the company's products and attaining approval for additional products.

Current Price (12/15/16)	$0.77
Valuation	**$11.00**

OUTLOOK

On December 9, 2016, Parnell Pharmaceuticals Holdings Ltd. announced that the company will be voluntarily moving from the Nasdaq Global Market to the OTC Pink Open Market to facilitate substantial cost savings in accordance with the company's previously announced goal of attaining profitability in 2017. Parnell's management team believes there is a vast incongruence between the value of the company's underlying assets and its share price, an opinion we share given a valuation of $11 per share we currently assign to the stock. The company plans to continue to grow the business, which includes the expected approval of Zydax in 2017, and potentially reapply for listing on the Nasdaq as a Foreign Private Issuer in the second half of 2017.

SUMMARY DATA

52-Week High	**$4.53**
52-Week Low	**$0.77**
One-Year Return (%)	**-81.88**
Beta	**0.33**
Average Daily Volume (sh)	**95,812**
Shares Outstanding (mil)	**17**
Market Capitalization ($mil)	**$13**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**17**
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	**N/A**
P/E using 2017 Estimate	**N/A**

Risk Level	**High,**
Type of Stock	**Small-Value**
Industry	**Med-Generic Drg**

ZACKS ESTIMATES

Revenue
(In millions of AUD$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	3.5 A	6.1 A	3.3 A	7.0 A	19.9 A
2016	- A	8.2 A	- E	13.8 E	24.0 E
2017					51.7 E
2018					73.0 E

Earnings per Share
(EPS is operating earnings before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	-$0.09 A	-$0.13 A	-$0.18 A	-$0.70 A	-$1.03 A
2016	- E	-$0.85 A	- E	-$0.16 E	-$0.96 E
2017					$0.26 E
2018					$1.15 E

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WHAT'S NEW

Parnell to Move From Nasdaq to OTC Pink Open Market

On December 9, 2016, Parnell Pharmaceuticals Holdings Ltd. (PARN) announced that the company will be voluntarily moving from the Nasdaq Global Market to the OTC Pink Open Market to facilitate substantial cost savings in accordance with the company's previously announced goal of attaining profitability in 2017. As of June 30, 2016, Parnell lost its status as a Foreign Private Issuer due to the fact that: 1) more than 50% of its outstanding voting securities were held by U.S. residents; and 2) a majority of its Board of Directors were current U.S. residents. Thus, by remaining on the Nasdaq the company would have to come into full compliance with all U.S. domestic reporting requirements, which the company estimates would cost approximately $2 million per year, even though the majority of the company's assets (e.g., the manufacturing facility) are located outside of the U.S.

The company's Board of Directors believes it is in the best interest of shareholders to move the company's shares off the Nasdaq, thereby redirecting those funds that would have been required for listing compliance to be applied toward growing the company and attaining the previously stated goal of profitability in 2017. In order to meet the requirements for being a Foreign Private Issuer, four members of the Board of Directors have resigned (Ms. Ellen Richstone, Mr. Peter Croden, Mr. William Hunsinger, and Mr. David Rosen). Management believes that the company may be able to seek reinstatement to the Nasdaq as a Foreign Private Issuer in the second half of 2017.

Parnell's management team believes there is a vast incongruence between the value of the company's underlying assets and its share price and that little to no value is being assigned to the company based on the Nasdaq listing. We agree with this sentiment, noting that the current share price is well below our current valuation of $11 per share.

Financial Update

On November 22, 2016, Parnell announced that it entered into a $20 million, senior secured, non-dilutive, term loan agreement with SWK Holdings. The funds will be used to pay back the $11 million term loan that was held with MidCap Financial, as well as to fund R&D programs and the commercialization of companion animal products, including Zydax® following its expected approval in mid-2017. The loan has a 48-month term, a fixed interest rate of 13%, and is interest only for the first 24 months. Following the interest-only period, the loan will amortize on a straight-line basis each quarter for the remaining 24 months. Parnell had previously stated its intention to enter into this debt facility, and we believe it is an effective means to acquire non-dilutive capital as the company transitions to being free cash flow positive.

Conclusion and Valuation

While we were surprised by the company's move to voluntarily delist from the Nasdaq, we believe that the Board of Directors is doing it in the best interest of shareholders. One of the company's main goals is attaining profitability, which will be greatly assisted by not needing to spend millions of dollars to stay in compliance with the listing requirements for U.S. based companies. In addition, it appears that Parnell will seek to re-list on the Nasdaq in the second half of 2017, and the company will continue to provide audited annual financial statements, quarterly business updates, and press releases announcing any material events. The stock price took a bit of a hit following the announcement, as a small minority of the funds that held the company's stock have rules against owning stock in companies that trade on the OTC. However, we believe that this move will be a net positive for the company, particularly if it facilitates attaining profitability in 2017. Our valuation is $11 per share using an enterprise value/revenue model with a 3.0x multiple on projected 2020 revenues. With a number of key events set to transpire in 2017 (approval of Zydax®, attaining profitability in the second half), we believe there will be a number of drivers to lead the share price higher.

PROJECTED INCOME STATEMENT

Parnell Pharmaceuticals Holdings Ltd.
Income Statement

Parnell Pharmaceutical Holdings, Inc. (in AUD$)	2015 A	1H16 A	2H16 E	2016 E	2017 E	2018 E
Companion Animal	$2.10	$1.50	$3.50	$5.00	$25.00	$45.00
YOY Growth	*50%*			*138.0%*	-	-
Production Animal (U.S.)	$8.08	$4.10	$7.00	$11.1	$15.00	$16.00
YOY Growth	*251%*			*37.3%*	-	-
Production Animal (RoW)	$2.99	$0.60	$2.30	$2.90	$3.20	$3.50
YOY Growth	*-38%*			*-2.8%*	-	-
Contract Manufacturing	$0.00	$2.20	$2.80	$5.00	$8.50	$8.50
YOY Growth	*#DIV/0!*			*#DIV/0!*		
Other Income	$6.73	$0.00	$0.00	$0.00	$0.00	$0.00
YOY Growth	*20%*	-	-	*-100.0%*	-	-
Total Revenues	**$19.89**	**$8.23**	**$15.60**	**$24.0**	**$51.7**	**$73.0**
Total Group Revenues	**$13.17**	**$8.23**	**$15.60**	**$24.0**	**$51.7**	**$73.0**
YOY Growth	*57%*	-	-	*82%*	*115%*	*41%*
Cost of Goods Sold	$7.7	$3.7	$4.3	$8.0	$13.8	$17.0
Gross Margin	*82%*	*79%*	*85%*	*83%*	*81%*	*82%*
Selling and Marketing Expenses	$11.8	$7.8	$7.2	$15.0	$16.0	$17.0
Regulatory Expenses	$0.9	$0.8	$0.2	$1.0	$1.5	$1.8
Administrative Expenses	$11.9	$7.3	$4.7	$12.0	$12.5	$13.0
Net Foreign Exchange Losses on Borrowings	$0.0	$0.0	$0.2	$0.2	$0.0	$0.0
Finance Costs	$1.3	$1.1	$1.1	$2.2	$3.0	$3.0
Other Expenses	$0.0	$0.1	$0.5	$0.6	$0.5	$0.5
Operating Income	($13.7)	($12.5)	($2.6)	($14.9)	$4.4	$20.7
Operating Margin	-	-	-	-	-	-
Non-Operating Expenses (Net)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	($13.7)	($12.5)	($2.6)	($14.9)	$4.4	$20.7
Income Taxes Paid	$0	$0.0	$0.0	$0.0	$0.0	$0.0
Foreign Currency translation	$0	$0.2	$0.1	$0.3	$0.2	$0.2
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	**($13.7)**	**($12.3)**	**($2.6)**	**($14.9)**	**$4.4**	**$20.7**
Net Margin	-	-	-	-	-	-
Reported EPS	**($1.03)**	**($0.85)**	**($0.16)**	**($0.96)**	**$0.26**	**$1.15**
YOY Growth	-	-	-	-	-	-
Basic Shares Outstanding	13.284	14.434	16.500	15.467	17.000	18.000

Source: Zacks Investment Research, Inc. *David Bautz, PhD*

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