Zacks Small-Cap Research

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Contrafect Corp

(CFRX-NASDAQ)

CFRX: Company Raises $35 Million; Steven Gilman Appointed as CEO…

Based on our probability adjusted DCF model that takes into account potential future revenues from CF-301 in bacteremia and CF-404 in influenza, CFRX is valued at $10/share. This model is highly dependent upon continued clinical success of CF-301 and CF-404 and will be adjusted accordingly based upon future clinical results.

Current Price (07/22/16)	$2.85
Valuation	**$10.00**

OUTLOOK

ContraFect Corp. announced an underwritten public financing in which the company raised gross proceeds of $35 million through the sale of 14 million shares of common stock at $2.50 per share. Included with the shares were 14 million warrants with an exercise price of $3.00. The company also announced that Dr. Steven Gilman has been appointed as Chief Executive Officer (CEO), having previously served as interim CEO since March 2016.

The company will be initiating a Phase 2 clinical trial for CF-301 in bacteremia patients in the fourth quarter of 2016. The current financing supplies the company with sufficient capital to fund operations past the end of that trial.

SUMMARY DATA

52-Week High	**$5.40**
52-Week Low	**$2.19**
One-Year Return (%)	**-45.71**
Beta	**-0.99**
Average Daily Volume (sh)	**25,411**
Shares Outstanding (mil)	**28**
Market Capitalization ($mil)	**$78**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**20**
Insider Ownership (%)	**15**
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	**Above Avg.,**
Type of Stock	**Small-Blend**
Industry	**Med-Drugs**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	0 A	0 A	0 A	0 A	0 A
2016	0 A	0 E	0 E	0 E	0 E
2017					0 E
2018					0 E

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

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	-$0.24 A	-$0.33 A	-$0.22 A	-$0.28 A	-$1.08 A
2016	-$0.32 A	-$0.23 E	-$0.28 E	-$0.27 E	-$1.11 E
2017					-$0.89 E
2018					-$0.92 E

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WHAT'S NEW

CFRX: Company Raises $35 Million; Steven Gilman Appointed as CEO

On July 22, 2016, ContraFect Corp. (CFRX) announced the pricing for an underwritten public offering of 14 million shares of common stock at an offering price of $2.50 per share along with 14 million warrants with an exercise price of $3.00 per share. Total gross proceeds to the company from the offering are approximately $35 million.

The company reported cash and cash equivalents of $26.3 million as of March 31, 2016. Thus, following the most recent raise we estimate that ContraFect currently has cash and cash equivalents of approximately $53 million.

As a reminder, the company is planning to initiate a Phase 2 clinical trial for CF-301 in patients with bacteremia, including those with endocarditis, which is caused by both MRSA and methiciliin-sensitive strains of *Staphylococcus aureus*. The trial is scheduled to begin in the fourth quarter of 2016. It will be an international, multicenter, randomized, double blind, placebo controlled trial with a superiority comparison between CF-301 combined with the standard of care antibiotics compared to placebo with the standard of care antibiotics. The study will include 115 patients randomized 3:2 to receive a single dose of 0.25 mg/kg CF-301 administered via a two-hour infusion or placebo. The primary endpoint of the study will be early clinical response. Safety, tolerability, and pharmacokinetics will also be examined along with additional exploratory clinical and health economic endpoints.

We anticipate that the Phase 2 trial will cost anywhere from $10 to $20 million to run and topline results should be available in the second quarter of 2018. The company is not planning to perform an interim analysis. With an estimated $53 million in cash and cash equivalents and an estimated monthly burn rate of $2 million to $2.5 million, the company now has sufficient capital to fund operations beyond the end of the Phase 2 trial.

Dr. Steven Gilman Hired as Chief Executive Officer

On July 21, 2016, ContraFect announced the appointment of Dr. Steven Gilman as Chief Execute Officer (CEO). He will also continue to serve as Chairman of the Board of Directors. Dr. Gilman had been appointed interim CEO after the departure of former CEO Julia Gregory in March 2016. He was most recently the Executive Vice President, Research and Development and Chief Scientific Officer at Cubist Pharmaceuticals until it was acquired by Merck in 2015. We believe Dr. Gilman is an excellent choice to serve as CEO as he has extensive experience in the anti-infective sector and in the development of novel anti-infective agents.

Valuation

We have constructed a probability adjusted discounted cash flow model that takes into account potential future revenues from CF-301 and the company's influenza treatment CF-404. Due to the increased number of shares following the public offering, we have lowered our valuation slightly to $10 per share. However, we continue to be highly enthusiastic about the lysin technology and ContraFect's prospects. With the uncertainties surrounding the CEO position and the company's finances removed, we believe now is the time for investors to take a serious look at ContraFect.

PROJECTED INCOME STATEMENT

ContraFect Corp.
Income Statement

ContraFect Corp.	2015 A	Q1 A	Q2 E	Q3 E	Q4 E	2016 E	2017 E	2018 E
CF-301 (Bacteremia)	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-		
CF-404 (Flu)	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-		
Grants & Collaborative Revenue	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-		
Total Revenues	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
YOY Growth	-	-	-	-	-	-		
Cost of Sales	$0	$0	$0	$0	$0	$0	$0	$0
Product Gross Margin	-	-	-	-	-	-		
Research & Development	$15.0	$4.4	$3.5	$4.8	$5.3	$18.0	$18.0	$21.0
General & Administrative	$10.1	$4.7	$2.9	$3.0	$3.0	$13.6	$13.0	$14.0
Other Expenses	$0	$0	$0	$0	$0	$0	$0	$0
Operating Income	($25.1)	($9.2)	($6.4)	($7.8)	($8.3)	($31.7)	($31.0)	($35.0)
Operating Margin	-	-	-	-	-	-		
Non-Operating Expenses (Net)	($0.1)	$0.2	($0.1)	($0.1)	($0.1)	$0.1	($0.1)	($0.1)
Pre-Tax Income	($25.1)	($8.9)	($6.5)	($7.9)	($8.4)	($31.6)	($31.1)	($35.1)
Income Taxes Paid	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	**($25.1)**	**($8.9)**	**($6.5)**	**($7.9)**	**($8.4)**	**($31.6)**	**($31.1)**	**($35.1)**
Net Margin	-	-	-	-	-	-		
Reported EPS	**($1.08)**	**($0.32)**	**($0.23)**	**($0.28)**	**($0.27)**	**($1.11)**	**($0.89)**	**($0.92)**
YOY Growth	-	-	-	-	-	-		
Basic Shares Outstanding	23.3	27.5	27.5	28.0	31.0	28.5	35.0	38.0

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

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