Zacks Small-Cap Research

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Resverlogix Corp. (RVX - TSX)

Cash Crunch; BETonMACE Continues Unaffected. Financing Expected Soon.

Based on our DCF model and a 15% discount rate, RVX is valued at approximately CAD$6.50 per share. Our model applies a 64% probability of apabetalone sales for indications in the BETonMACE trial. Our valuation only includes BETonMACE indication contributions from the US, Europe, & Latin America, as well as royalties from the Hepalink arrangement. It does not recognize potential from renal or orphan indications.

Current Price (8/1/2017)	$1.40
Valuation	**$6.50**

OUTLOOK

Resverlogix Corp. (RVX.TO) began recruiting and dosing participants in the Phase 3 BETonMACE trial of its lead candidate apabetalone (RVX-208) in high-risk CVD patients with diabetes in November 2015. We believe the trial will take approximately 3 years to complete, targeting topline readout in 2018. With a potential impact on multiple markers for CVD we are optimistic on a materially significant impact on MACE.

The company has announced several successful early phase studies in DM and renal that are supportive of apabetalone's safety profile and point to expanded indications.

At the current price, we view Resverlogix shares as undervalued, and in a position to provide long-term upside potential. We maintain our target price to CAD$6.50 per share and believe that expansion into new geographies, the orphan disease program, and renal disease, could provide further upside to our valuation.

SUMMARY DATA

52-Week High	**2.47**
52-Week Low	**1.12**
One-Year Return (%)	**20.7**
Beta	**1.37**
Average Daily Volume (sh)	**73,257**
Shares Outstanding (mil)	**111.1**
Market Capitalization ($mil)	**155.5**
Short Interest Ratio (days)	**14.7**
Institutional Ownership (%)	**0.0**
Insider Ownership (%)	**42.0**
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 2017 Estimate	**N/A**
P/E using 2018 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue

(In millions of US$)

	Q1 (Jul)	Q2 (Oct)	Q3 (Jan)	Q4 (Apr)	Year (Apr)
2017	$0.0 A	$0.0 A	$0.0 A	$0.0 A	$0.0 A
2018	$0.0 E	$0.0 E	$0.0 E	$0.0 E	$0.0 E
2019					$0.0 E
2020					$0.0 E

Earnings per Share

	Q1 (Jul)	Q2 (Oct)	Q3 (Jan)	Q4 (Apr)	Year (Apr)
2017	-$0.06 A	-$0.14 A	-$0.12 A	-$0.11 A	-$0.44 A
2018	-$0.11 E	-$0.10 E	-$0.10 E	-$0.10 E	-$0.41 E
2019					-$0.36 E
2020					-$0.37 E

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WHAT'S NEW

Resverlogix Reports Fiscal Year 2017 Results

On July 25, Resverlogix Corp. (TSX: RVX) posted its financial statements and management discussion and analysis for fiscal year 2017, ending April 30, 2017. The company reported no revenues and a net loss of ($46.2)[1] million or ($0.44) per share. This compares to our estimates also of zero revenues and a net loss of ($42.9) million or ($0.38) per share. Total operational expenses for FY:17 were $34.1 million, increasing from $20.0 million in the prior year. Full year research & development expenses rose 91%, while general & administrative expenses were essentially flat. Costs for the Renal PK and the BETonMACE clinical trials related to recruiting and clinical supply shipments were important drivers behind the increase.

Clinical costs, which include investigator grants, project and site management and monitoring costs and laboratory costs, totaled approximately $18.4 million with $16.5 million of the total allocated to the BETonMACE clinical trial and $0.6 million for the renal pharmacokinetic clinical trials and $0.2 million for the renal dialysis clinical trial. This compares to clinical costs of $8.8 million in FY:16. Regulatory costs comprised $0.4 million of the total and $0.7 million was spent on other clinical costs including sample analysis, consultants and insurance. Chemistry, manufacturing and control costs were $6.2 million in the latest period compared to $2.3 million in FY:16 with the increase attributable to shipment costs of supplies for the BETonMACE trial. Preclinical costs of $1.8 million were up from $1.1 million on higher expenses from greater research, pharmacology, toxicology and drug metabolism, and pharmacokinetics spend. R&D compensation costs were up $0.2 million year over year to $2.3 million.

General and administrative costs fell just below $4.3 million slipping 1% compared to FY:16 costs. Net finance costs increased for the year to $12.0 million primarily due to the change in value of royalty preferred shares offset by higher foreign exchange loss and interest accretion. The warrant liability shifted from a $12.2 million gain in FY:16 to a $0.7 million loss in FY:17, all of which is non-cash in nature and related to changes in share price and expiration of time value of the instruments.

As of April 30, 2017, Resverlogix held $1.4 million in cash and $48.6 million in debt. Operating cash burn was ($1.1) million per month in 4Q:17 and ($1.9) million per month for the full year. Resverlogix also calculates cash burn; relative to our formula it includes changes in non-cash working capital and excludes capital expenditures yielding a ($2.8) million monthly burn rate for the year. Using our definition, this compares to monthly cash burn of ($1.2) million in 4Q:16 and ($1.8) million for FY:16.

Resverlogix's cash has been at minimal levels since the end of the fiscal year as management seeks to obtain non-dilutive financing. The company was able to stretch payables until the $CAD10 million private placement in June 2017. The company must also refinance the maturing US$50.3 million loan by August 28, 2017. Based on company commentary we expect additional debt, equity or other capital raises in the next month.

The company has consistently met its trial milestones and continues to be on track for a BETonMACE readout by late 2018 and has continued to conduct small trials to provide additional evidence of safety and expanded efficacy. We believe that the consistently positive data that is being generated is supportive of favorable financing which is expected to take place in the near term.

Launch of BETonMACE in US

On July 25, 2017 Resverlogix received a positive Type C written response from the FDA allowing the launch of the BETonMACE study in the United States. The FDA had previously requested updated information on apabetalone with respect to human exposure, clinical dosing and established acceptable safety margins for which the company has provided satisfactory responses to the agency.

Resverlogix Raises CAD$10 Million Gross

On June 9th, Resverlogix announced that it had confirmed CAD$10 million in demand for equity shares in an overnight offering marketed to Canadian investors. The CAD$10 million capital raise should be sufficient to provide the flexibility to negotiate a larger licensing or first right of refusal deal that will support clinical trials and operations

[1] Note that financial statements are prepared in US Dollars and our commentary on revenues expenses and earnings is also in US Dollars, while our target price is in Canadian Dollars.

until a new drug application can be submitted to the FDA, which we anticipate occurring in 2019. Based on our conversations with management and the short-term amount of capital raised, we anticipate that a larger deal is close at hand which will provide enough cash to fund the $2.5 to $2.8 million per month in anticipated cash burn.

Financial Position

The company currently holds approximately $50 million of debt on its balance sheet. This represents a loan agreement with Citibank which is repayable upon maturity on August 28, 2017. Management is currently in discussions with lenders to extend or replace the loan. We believe that current talks regarding a capital raise include some type of replacement of this arrangement that will be more favorable to a development stage company.

Resverlogix has reduced its cash burn rates in recent months as it seeks funding to support its operations and as it shifts to a later stage in clinical trial work. Much of the upfront costs for enrolling new patients, such as initial screenings, and the costs of statins used in the trial have already peaked, helping limit cash burn levels. Below, we provide the full set of financing options that Resverlogix is considering:

- Co-development or follow on compounds with major pharmaceutical company providing upfront payment and coverage of future expenses.
- Licensing on a regional basis providing upfront payments
- Licensing certain new or orphan indications to partners for upfront payment
- Partnering and offering first right of refusal in an M&A transaction for an upfront payment
- Private placements with equity and warrants
- Public offering of equity, potentially with an IPO on a US Exchange
- Debt financing

Our Estimates

For FY:18, we anticipate a slight increase in R&D spending to reflect the ongoing expenses for the BETonMACE trial and expansion of investigation sites, most notably in the United States. General and administrative expenses are expected to rise modestly to $4.9 million due to general inflationary pressures. Operating loss is forecast to increase 8% to 36.9 million in 2018. After adjusting for financing costs, net income comes to ($45.1) million or a ($0.41) loss per share.

Based on current cash levels, Resverlogix will need to raise cash in the near term. Management has outlined several financial options that they are exploring which we list below:

- Co-development or follow on compounds with major pharmaceutical company would provide upfront payment and coverage of future expenses.
- Licensing on a regional basis would provide upfront payments
- Licensing certain new or orphan indications to partners for upfront payment
- Partnering and offering first right of refusal in an M&A transaction for an upfront payment
- Private placements with equity and warrants
- Public offering of equity, potentially with an IPO on a US Exchange
- Debt financing

We anticipate that Resverlogix will favor the options in the order they are presented above and expect execution on one or more of these alternatives during the company's second fiscal quarter. We note that debt of approximately $50 million is coming due at the end of August 2017, at which time we expect a refinancing.

Recent Events

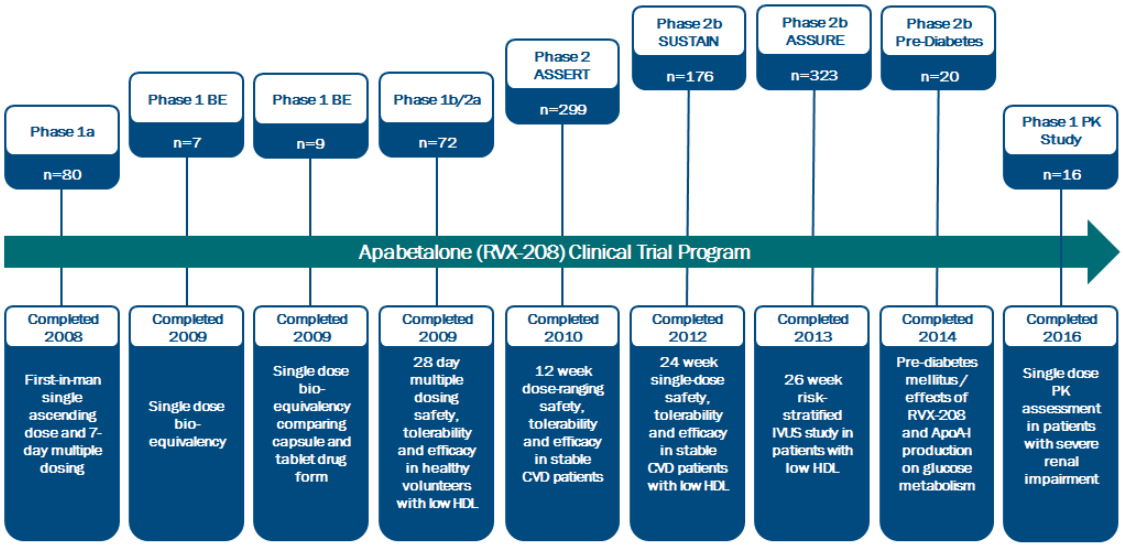
In May, the company highlighted an academic publication on apabetalone and a patent reference by Pfizer Inc. The publication was an article in Nature Reviews Nephrology entitled "Alkaline phosphatase: a novel treatment target for cardiovascular disease in CKD." The article highlights the relationship between alkaline phosphatase and vascular calcification, inflammation and cardiovascular disease. The patent reference was filed to protect Pfizer's BET-family bromodomain inhibitors as a technique to increase the protein frataxin which is a cause of Friedreich's ataxia, a lethal neurodegenerative disease. Pfizer listed apabetalone as a drug that could possibly be effective against this disease.

The Data and Safety Monitoring Board (DSMB) has provided four positive recommendations over the last year for the BETonMACE trial with the latest given in late June 2017. Previous announcements were made March 2017, August 2016 and December 2016 and similarly found no safety or efficacy concerns.

Clinical Overview of Apabetalone

Resverlogix has completed many clinical trials to date. Apabetalone has been tested in over 1,000 patients in 12 countries, and clinical experience with apabetalone has demonstrated that BET inhibitors can be both safe and effective. Over the years, Resverlogix has gathered information from these studies and shifted focus to target patients with low HDL and diabetes with co-treatment of RVX-208 and rosuvastatin (Crestor) and atorvastatin (Lipitor) in its BETonMACE trial.

Exhibit I – Summary of Resverlogix's Clinical Trials[2]



Phase 3 "BETonMACE"

In October 2015, Resverlogix launched the BETonMACE trial with lead drug apabetalone in high-risk patients with coronary artery disease (CAD) and type 2 diabetes mellitus (DM). The study is a large international multi-center, double-blind, randomized, parallel group, placebo-controlled clinical trial to determine whether treatment with apabetalone in combination with rosuvastatin or atorvastatin increases the time to MACE compared to treatment with rosuvastatin or atorvastatin alone.

The primary endpoint of the BETonMACE trial is designed to show a relative risk reduction of MACE, narrowly defined as a single composite endpoint of CV death, non-fatal myocardial infarction ("MI") and stroke. The study is event-based and will continue until at least 250 MACE events have occurred. MACE will be adjudicated by an independent committee and the study will be monitored by a data safety monitoring board. The trial is seeking a 30% reduction in MACE as compared to the placebo arm.

[2] Source: Resverlogix MD&A

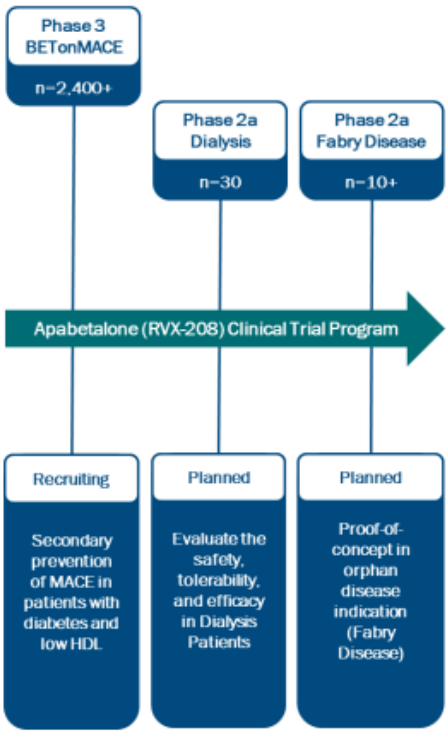
Secondary endpoints include time to first occurrence of the composite broad MACE which includes the addition of hospitalization for CVD events (unstable angina and revascularization procedures), changes in lipoprotein concentrations (HDL and apolipoprotein A-1), changes in diabetes mellitus variables (glucose and glycated hemoglobin), change in alkaline phosphatase ("ALP"), changes in kidney function and additional safety and tolerability of apabetalone.

As part of the BETonMACE trial, the study will examine a subset of the patients to test for impact on neuro-degenerative diseases and test for cognition. The subset will include patients over the age of 70 and perform a Montreal Cognitive Assessment (MoCA) test. The company anticipates that this could be from 200 to 300+ participants in the trial. This population group is the equivalent of conducting a Phase 2 dementia trial as part of BETonMACE.

BETonMACE will initially be conducted in Argentina, Mexico and various European cities with expansion into Asia through the partnership with Hepalink. U.S. sites will also be launched following the FDA's recent approval and expansion into Russia and Taiwan are already underway. Argentina, Belgium, Bulgaria, Croatia, Germany, Hungary, Israel, Mexico, Poland, Serbia, and Slovakia are also participating.

The FDA provided approval for an IND in support of a Phase II kidney dialysis trial seeking to determine the relationship between apabetalone and alkaline phosphatase. Approval for the trial to proceed was given by the FDA in May 2017.

Exhibit III – Current and Planned Clinical Trials[3]



[3] Source: Resverlogix MD&A

Summary

Our investment thesis on Resverlogix emphasizes the size of the population impacted by cardiovascular disease (CVD), which is the number one killer in the world today. Costs related to this disease are almost $1 trillion and the incidence of CVD is expected to increase as the population ages. Obesity, diabetes, high cholesterol and other risk factors are becoming more common, dramatically increasing the need for therapies that are more effective against the underlying markers for CVD. Resverlogix's lead compound has shown promise in addressing many of the key biomarkers underlying CVD and potentially has applications in other therapeutic areas beyond CVD.

We updated our estimates for FY:18, reflecting a continuation of expenses related to the BETonMACE trial. Both R&D and G&A expenses are expected to rise reflecting increased investigational site costs and anticipated inflation. We also anticipate a substantial refinancing that will provide sufficient capital to fund operation until Resverlogix can submit its Phase III data to the FDA. Our quarterly estimates are now included in our projected financials.

We believe that a durable patent position and the forecasted pricing of apabetalone, combined with a management skill set surrounding CVD and diabetes as well as a novel approach to addressing the residual risk in high need CVD patients support our price target. At current share price levels, there is substantial upside based on our target price. We highlight that data from the BETonMACE trial will not likely be available until mid to late-2018, but we look forward to see results from the interim futility analysis which will provide a first look after 125 MACE events. We reiterate our price target of CAD$6.50 per share.

PROJECTED FINANCIALS

Resverlogix Corp. - Income Statement

Resverlogix Corp. (millions of $US)	Apr. 2017 FY-17 A	Jul. 2017 Q1 E	Oct. 2017 Q2 E	Jan. 2018 Q3 E	Apr. 2018 Q4 E	Apr. 2018 FY-18 E	Apr. 2019 FY-19 E	Apr. 2020 FY-20 E
RVX-208	$0	$0	$0	$0	$0	$0	$0	$0
Licensing & Collaborative	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-	-	-
Total Revenues	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
CoGS	$0	$0	$0	$0	$0	$0	$0	$0
Product Gross Margin	-	-	-	-	-	-	-	-
R&D Expense (net)	$29.9	$8.2	$8.1	$7.9	$7.8	$32.0	$33.0	$34.0
G&A Expense	$4.3	$1.3	$1.2	$1.2	$1.2	$4.9	$6.8	$7.0
Operating Income	($34.1)	($9.5)	($9.3)	($9.1)	($9.0)	($36.9)	($39.8)	($41.0)
Operating Margin	-	-	-	-	-	-	-	-
Net Finance Activities	($12.0)	($1.8)	($2.0)	($2.2)	($2.2)	($8.2)	($8.8)	($8.8)
Other Gain / (Loss)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	($46.1)	($11.3)	($11.3)	($11.3)	($11.2)	($45.1)	($48.6)	($49.8)
Taxes & Other	$0.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	($46.2)	($11.3)	($11.3)	($11.3)	($11.2)	($45.1)	($48.6)	($49.8)
Reported EPS	**($0.44)**	**($0.11)**	**($0.10)**	**($0.10)**	**($0.10)**	**($0.41)**	**($0.36)**	**($0.37)**
YOY Growth	-					-	-	-
Diluted Shares Outstanding	105.4	107.0	112.0	112.3	113.0	111.1	135.0	135.0

Source: Company Filing // Zacks Investment Research, Inc. Es

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HISTORICAL STOCK PRICE

Resverlogix, Corp. – One Year Price Chart[4]



[4] Chart generated by Google Finance

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