Zacks Small-Cap Research

February 23, 2017

Brian Marckx, CFA
bmarckx@zacks.com
Ph (312) 265-9474

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

EyeGate Pharmaceuticals (EYEG-NASDAQ)

EYEG: Valeant Deal Further De-risks, Moves Price Target To $7

The detailed assumptions in our Valuation section along with other inputs in our DCF including a 10% discount rate and 2% terminal growth rate, results in a current DCF-generated valuation of approximately $7/share.

Current Price (02/23/17)	$2.81
Valuation	**$7.00**

OUTLOOK

EYEG's novel iontophoresis drug delivery platform offers a much less burdensome and non-invasive solution to current standard of care for diseases of the eye. Phase 3 pivotal study in anterior uveitis continues to enroll – if positive will support NDA filing. Launch could happen by 2018. Out-licensing agreements recently consummated with Valeant/Bausch+Lomb for two indications. Clinicals in post-cataract surgery also progressing with positive data recently announced. Recent Jade acquisition brought complementary, de-risked pipeline. First Jade candidate (EyeGate OBG) showed promising data in pilot study. Larger study expected to commence in near-term. If efficacy is confirmed, we think eventual commercialization could be reasonably high. Our DCF model, which incorporates indication-specific risk adjustments to account for potential clinical or regulatory failure for each of the programs, currently values the shares at approximately $7. While representing attractive upside to the current share price, our calculated value should appreciate further on progression through clinical trials of EGP-437 as well as Jade's pipeline.

SUMMARY DATA

52-Week High	**$5.10**
52-Week Low	**$1.11**
One-Year Return (%)	**-13.36**
Beta	**2.37**
Average Daily Volume (sh)	**837,140**
Shares Outstanding (mil)	**10**
Market Capitalization ($mil)	**$27**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**6**
Insider Ownership (%)	**27**
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	**High,**
Type of Stock	**Small-Growth**
Industry	**Med-Drugs**

ZACKS ESTIMATES

Revenue
(in 000s 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	235 A	274 A	203 E	712 E
2017					5825 E
2018					8680 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	-$3.23 A	-$0.24 A	-$0.19 A	-$0.35 A	-$2.70 A
2016	-$0.31 A	-$0.46 A	-$0.36 A	-$0.42 E	-$1.55 E
2017					-$0.79 E
2018					-$0.54 E

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

© Copyright 2017, Zacks Investment Research. All Rights Reserved.

Valeant Picks Up Cataract Surgery Licensing Option: EYEG Gets $4M + Potential $99M

In July 2015 EYEG licensed manufacturing and commercialization rights of their EGP-437/EyeGate Delivery System combination product for uveitis to Valeant Pharmaceuticals (VRX) in return for $1M upfront cash, another potential (up to) $32.5M in development, regulatory and sales milestones, and high single digit royalties on sales. Valeant also received an option of last refusal to license EYEG's combination product for any other indications.

Valeant picked up that option for the cataract surgery indication – terms of which are very similar, although potentially more lucrative to EYEG, to the uveitis licensing agreement. Earlier this week EYEG announced that in return for $4M upfront cash and up to an additional potential $99M in development and commercialization milestones, they licensed rights to their EGP-437/delivery combination product candidate for the treatment of post-operative pain and inflammation in ocular surgery patients.

Key points of the agreement include:

- EYEG
  - Receives:
    - $4M upfront cash
    - up to ~$99M upon achievement of specific (undisclosed) development/commercialization milestones
    - royalties (undisclosed rate) on net sales, if and when FDA cleared and commercialized
  - Is responsible for
    - further development, and related cost, of the product for this indication
    - obtaining FDA regulatory marketing clearance
    - 50% of the cost of any FDA-mandated post-marketing studies or related development, if required
- Valeant
  - Receives:
    - exclusive right to manufacture and commercialize the product for this indication throughout the world
    - exclusive right to develop the product for this indication outside the U.S.
    - right of last refusal for any future indications that EYEG seeks to commercialize the product for
  - Is responsible for:
    - Cost of developing the product, including regulatory costs, for this indication outside the U.S. if VRX chooses to do so
    - 50% of the cost of any FDA-mandated post-marketing studies or related development, if required

Our comments:

As we noted following the initial licensing agreement covering the uveitis indication, Valeant, through their Bausch + Lomb subsidiary, provides EYEG with seamless entry into the difficult-to-penetrate ophthalmic therapy market. These licensing deals also provide non-dilutive upfront operating and product development capital and, along with development-related milestones, greatly mitigate financial and product development risk. And, we think the fact that Valeant came back and exercised their future-indication option indicates provides additional and substantive validation of the potential utility, versatility and clinical efficacy of the EGP-437 combo product.

Income Statement impact: we believe the current intrinsic value of EYEG lies mostly in their product pipeline, development progress of which should be positively correlated to changes in the company's market value. This has always been a central component to our valuation methodology. As we note below, we have upwardly revised our price target of EYEG based on an increase in probability of eventual FDA clearance of EGP-437 for a cataract surgery indication.

So while we believe investors' interest over the near-term should be focused on areas such as clinical data of EGP-437 in uveitis and cataract surgery and OBG in PRK, we are commenting on the potential impact of these licensing agreements on the company's financial statements for explanation/information purposes only.

EYEG and VRX did not disclose certain details of these agreements including the specific development and commercial milestone triggers or the royalty rate on sales. This makes it difficult to forecast/model the related

potential revenue contribution to EYEG. Even the $1M upfront cash payment that EYEG received in Q3 2015 for the uveitis indication was not booked to revenue but instead brought on the balance sheet as deferred income and has yet to hit the income statement (EYEG did note in their Q3 2016 10-Q, however, that they expect to begin recognizing revenue related to the uveitis licensing agreement in development progress payments during in 2017). As such, our model is highly subject to change based on things like the timing of when the $4M upfront payment for cataract surgery is realized – the particularly timing of which is largely immaterial (i.e. EYEG has the cash).

Background on EYEG's Cataract Surgery Development Program

In early August 2016 EYEG announced encouraging topline data from the phase Ib/IIa post-cataract surgery dose ranging clinical trial. Patients were separated into cohorts of 10 patients each; three dosing ranges (4.0 mA-min, 9.0 mA-min and 14.0 mA-min) with the two highest doses at two different treatment schedules (on day 0, day 1 and day 2 or day 0, day 1 and day 4). All three doses have the potential to add another treatment on day 7. Primary endpoint is the proportion of subjects with ACC count of zero on day 14. Secondary efficacy endpoint is the proportion of subjects with a pain score of zero on Day 7.

The top-line data announced in the summer relates to 40 patients (4 cohorts) which were administered iontophoretic EGP-437 at either 9.0 mA-min or 14.0 mA-min on day 0, day 1 and day 2 or day 0, day 1 and day 4, with potential for an additional treatment at day 7 in all cohorts. Results showed patients receiving the 14.0 mA-min dose on days 0, 1 and 4 had the most significant improvement in ACC - with 40% of patients in this group achieving an ACC count of 0 at day 14 (i.e. the primary endpoint) and this increased to 88% on day 28. In addition all patients receiving the iontophoretic treatment reported reduced pain at all time points with 90% having no pain as early as day 1 and increasing to 100% on day 14. In addition there was no steroid-related increase in intraocular pressure reported.

EYEG most recently noted that they hope to initiate a phase II study in 1H 2017. If all goes well, an FDA filing could be made sometime next year.

VALUATION

Our model incorporates the following assumptions:

Anterior Uveitis Indication:

- 80% probability of successful FDA approval/clearance and launch for anterior uveitis indication. All modeled milestones and royalties related to anterior uveitis are initially discounted by 20% (i.e. 1 – 0.80) to account for risk of regulatory or commercialization failure
- EYEG begins to book revenue related to AU milestones in 2017
- Receipt of FDA approval/clearance and launch in 2018 and receipt of regulatory milestones as well as additional development milestones in that same year
- $300 cost per application x 3 applications (per clinical trial protocol) = $900/patient. Cost increases at rate of inflation
- U.S. market size of ~110k, increasing at the rate of population growth. Less than 1% penetration through 2019, mid-single digit penetration by 2023 and 10% in 2026 (the out-year in our 10-yr DCF model)

Macular Edema Indication:

- We have removed the ME indication from our model as we expect EYEG will be dedicating resources towards other programs. We will revisit the ME indication in the event EYEG continues development in ME

Cataract Surgery Indication:

- Following the announcement that Valeant will license rights for the cataract surgery indication we moved our probability of successful FDA approval/clearance and launch for cataract surgery indication up from 15% to 30%. All modeled milestones and royalties related to cataract surgery are initially discounted by 70% to account for risk of regulatory or commercialization failure

- As we had noted in prior updates, we felt that the cataract surgery could be the indication which the risk discount could be reduced the most significantly in the near term. Additional positive clinical data could prompt another reduction to the haircut
- Receipt of development milestones begins in 2017
- Receipt of FDA approval/clearance and launch in 2018 and receipt of regulatory milestones as well as additional development milestones in that same year
- $300 cost per application x 2 applications (per clinical trial protocol) = $600/patient. Cost increases at rate of inflation
- U.S. market size of ~1.1M, increasing at the rate of population growth. Less than 1% penetration in 2018, mid-single digit penetration by 2021/2022 and 15% in 2026

Jade's Pipeline
- 50% probability of successful FDA approval/clearance of OBG
- Out-licenses to major ophthalmology-focused company such as Allergan, Novartis or Bausch+Lomb for 20% of net revenues
- U.S. launch in 2018, single digit penetration through 2022
- Annual U.S. market for initial indication of ~$125M
- Currently do not model other indications for OBG or for other of Jade's candidates. This will be updated with news flow

DCF Currently Values EYEG at $7/Share, Progression Through Clinicals Should Push Value Higher…
The above assumptions along with other inputs in our DCF including a 10% discount rate and 2% terminal growth rate, results in a current DCF-generated valuation of approximately $7/share. While we have incorporated some assumed revenue from Jade's pipeline, we have also incorporated assumed expenses from combining the two companies as well as R&D expenses related to the pipeline (as well as additional outstanding shares). While our $7/share target represents attractive upside to the current share price, our calculated value should appreciate further on progression of EGP-437 and Jade's pipeline through clinical trials in any of the indications as this would positively affect (i.e. decrease) our risk discounts.

FINANCIAL MODEL

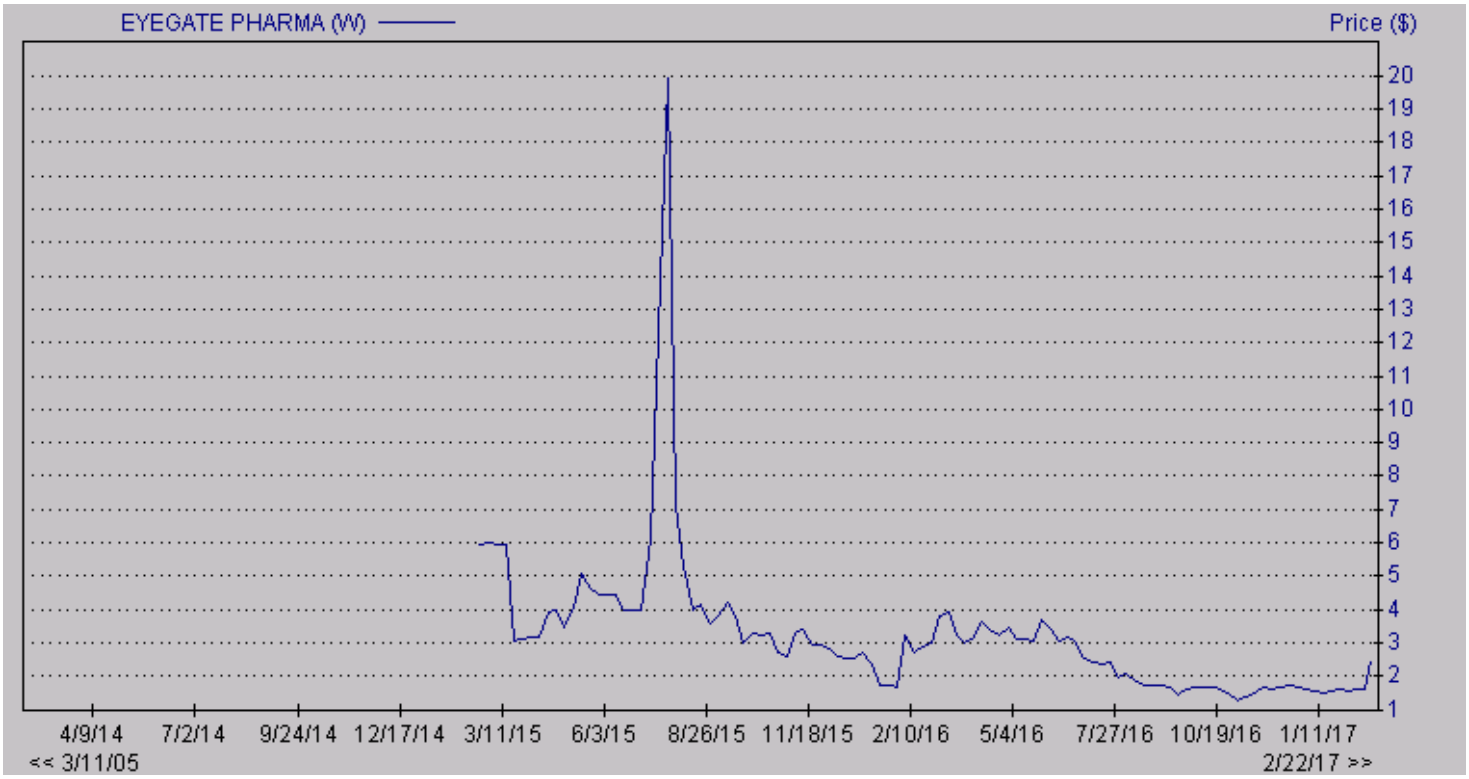
EyeGate Pharmaceuticals Inc. (figures in 000s of $)

	2015 A	Q1A	Q2A	Q3A	Q4E	2016 E	2017 E	2018 E	2019 E
Legacy Eyegate									
Anterior Uveitis									
Probability reaches market	-	-	-	-	-	80%	80%	80%	80%
U.S. Market Size	-	-	-	-	-	110,000	112,200	114,444	116,733
Penetration %	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.3%	0.7%
Number of patients	-	-	-	-	-	**0**	**0**	**343**	**817**
EYEG Royalty rate	-	-	-	-	-	8%	8%	8%	8%
Cost per procedure	-	-	-	-	-	$900	$923	$946	$969
Revenue (000's) w/haircut	-	-	-	-	-	**$0.00**	**$0.00**	**$20.78**	**$50.69**
Milestones w/ haircut	-	-	-	-	-	**$0.00**	**$4,000.00**	**$5,600.00**	**$2,800.00**
AU Total Revenue	-	-	-	-	-	**$0.0**	**$4,000.0**	**$5,620.8**	**$2,850.7**
Cataract Surgery									
Probability reaches market	-	-	-	-	-	15%	100%	100%	30%
U.S. Market Size	-	-	-	-	-	1,100,000	1,122,000	1,144,440	1,167,329
Penetration %	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.7%
Number of patients	-	-	-	-	-	**0**	**0**	**0**	**19,845**
EYEG Royalty rate	-	-	-	-	-	8%	8%	8%	8%
Cost per procedure	-	-	-	-	-	$600	$615	$630	$646
Revenue (000's) w/haircut	-	-	-	-	-	**$0.00**	**$0.00**	**$0.00**	**$307.73**
Milestones w/ haircut	-	-	-	-	-	**$0.00**	**$1,000.00**	**$3,000.00**	**$1,650.00**
CS Total Revenue	-	-	-	-	-	**$0.0**	**$1,000.0**	**$3,000.0**	**$1,957.7**
Product Sales/Royalites	-	-	-	-	-	$0.0	$0.0	$20.8	$358.4
Dvlpmnt / Reg Milestones	-	-	-	-	-	$0.0	$5,000.0	$8,600.0	$4,450.0
Jade's Pipeline									
JDE-003 (Corneal Repair)									
Probability reaches market	-	-	-	-	-	50%	50%	50%	50%
U.S. Market Size	-	-	-	-	-	125,000	127,500	130,050	132,651
Penetration %	-	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	3.0%
Number of patients	-	-	-	-	-	**0**	**0**	**1,301**	**3,980**
EYEG Royalty rate	-	-	-	-	-	20%	20%	20%	20%
Cost per procedure	-	-	-	-	-	$450	$461	$473	$485
Net Revenue (000's) w/haircut	-	-	-	-	-	**$0.00**	**$0.00**	**$59.03**	**$185.13**
Milestones w/ haircut	-	-	-	-	-	**$0.00**	**$0.00**	**$0.00**	**$0.00**
Corneal Repair Total Revenue	-	-	-	-	-	**$0.0**	**$0.0**	**$59.0**	**$185.1**
Total Milestones		-	-	-	-	$0	$5,000	$8,600	$4,450
Collaboration Revenue (Jade, Gov't		$0	$235	$274	$203	$712	$825	$0	$0
Total Revenues	$0.0	$0.0	$234.6	$274.3	$203.0	$711.9	$5,825.0	$8,679.8	$4,993.6
YOY Growth	-	-	-	-	-	-	*718.2%*	*49.0%*	*-42.5%*
Cost of Revenues	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.00	$0.0	$0.0
Gross Income	$0.0	$0.0	$234.6	$274.3	$203.0	$711.9	$5,825.0	$8,679.8	$4,993.6
Gross Margin	-	-	-	-	-	-	-	-	-
R&D	$2,717.1	$914.0	$2,481.5	$2,449.4	$2,468.0	$8,313.0	$8,784.0	$9,350.0	$9,210.0
%R&D	-	-	*1057.8%*	*893.0%*	*1215.8%*	*1167.7%*	*150.8%*	*107.7%*	*184.4%*
SG&A	$3,960.5	$1,528.8	$1,579.2	$1,201.8	$1,644.0	$5,953.7	$6,915.0	$7,391.0	$7,603.0
%SG&A	-	-	*673.1%*	*438.2%*	*809.9%*	*836.3%*	*118.7%*	*85.2%*	*152.3%*
Operating Income	($6,677.6)	($2,442.8)	($3,826.1)	($3,377.0)	($3,909.0)	($13,554.8)	($9,874.0)	($8,061.2)	($11,819.4)
Operating Margin	-	-	*-1630.9%*	*-1231.2%*	*-1925.6%*	*-1904.1%*	*-169.5%*	*-92.9%*	*-236.7%*
Total, other income (exp)	($1,710.4)	$0.3	$2.8	$0.3	$1.4	$4.8	$0.0	$0.0	$0.0
Pre-Tax Income	($8,388.0)	($2,442.4)	($3,823.3)	($3,376.7)	($3,907.6)	($13,550.0)	($9,874.0)	($8,061.2)	($11,819.4)
Taxes	$0.0	$0.0	$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%*	*0.0%*	*0.0%*
Net Income	($16,615.2)	($2,442.4)	($3,823.3)	($3,376.7)	($3,907.6)	($13,550.0)	($9,874.0)	($8,061.2)	($11,819.4)
YOY Growth	-	-	-	-	-	-	-	-	*46.6%*
Net Margin	-	-	-	-	-	-	-	-	-
EPS	($2.70)	($0.31)	($0.46)	($0.36)	($0.42)	($1.55)	($0.79)	($0.54)	($0.70)
YOY Growth	*-70.7%*	*-90.4%*	*88.5%*	*92.5%*	*19.2%*	*-42.4%*	*-49.1%*	*-32.0%*	*29.4%*
Diluted Shares O/S	6,164	7,847	8,375	9,270	9,400	8,723	12,500	15,000	17,000

Brian Marckx, CFA

© Copyright 2017, Zacks Investment Research. All Rights Reserved.

HISTORICAL ZACKS RECOMMENDATIONS



© Copyright 2017, Zacks Investment Research. All Rights Reserved.

DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Brian Marckx, CFA, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION
Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned