Zacks Small-Cap Research

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EyeGate Pharmaceuticals (EYEG-NASDAQ)

EYEG: Positive OBG Clinical Data, Larger Study Already Planned

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 $5/share.

Current Price (02/03/17)	$1.61
Valuation	**$5.00**

OUTLOOK

EYEG is a pre-commercial stage company engaged in the development of drugs and drug delivery devices for diseases of the eyes. Their 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 agreement recently consummated with Valeant/Bausch+Lomb. 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 $5. 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	**$1.11**
One-Year Return (%)	**-43.46**
Beta	**2.37**
Average Daily Volume (sh)	**329,299**
Shares Outstanding (mil)	**10**
Market Capitalization ($mil)	**$15**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**7**
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					5200 E
2018					6447 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					-$0.53 E
2018					-$0.67 E

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

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Positive OBG Clinical Data, Larger Study Could Commence in Q2…

Earlier this week (Jan 30th) EyeGate announced encouraging top-line results of its human pilot study of its Ocular Bandage Gel (OBG). While the study was small, results indicate that OBG may be associated with faster corneal healing following eye surgery as compared to standard of care. We view this as meaningfully positive as it sets the stage to move OBG into a larger study – which is now in the planning stage and, assuming IDE approval, could kick off in Q2.

As a reminder, OBG is the lead CMHA-S candidate which came from the Jade Therapeutics acquisition and is being developed for corneal repair indications. Given the strong safety profile of the compound and expected (relatively streamlined) De Novo 510(k) FDA pathway, we think OBG may represent one of EYEG's most near-term commercialization opportunities.

The pilot study compared OBG to artificial tears with bandage contact lens (BCL) in patients undergoing bilateral photorefractive keratectomy ("PRK"). PRK is a type of vision-correction laser eye surgery - recovery from which includes regrowth of the epithelium (i.e. thin outer layer of the cornea).

Ocular Bandage Gel photoreactive keratectomy pilot study

- Objective: evaluate safety and performance of OBG eye drop administered 4x/day for 14 days with or without a BCL as compared to artificial tears and a BCL
- Primary efficacy endpoint: complete wound closure by Day 3
- Design: prospective, randomized, controlled study in up to 39 subjects undergoing bilateral PRK surgery. Subjects randomized to one of three cohorts;
  - Arm 1 (n=12): EyeGate Ocular Bandage Gel 4x/day for 2 weeks after surgery without a BCL
  - Arm 2 (n=14): EyeGate Ocular Bandage Gel 4x/day for 2 weeks after surgery in combination with a BCL
  - Arm 3 (n=13): Artificial tears 4x/day and BCL

Topline results of the pilot study, which was the first in-human study of OBG, showed a greater proportion of OBG-treated patients versus those treated with standard of care met the **primary endpoint** of complete wound closure by Day 3. 9 of the 12 (75%) patients treated with OBG alone (i.e. no BCL) met the primary endpoint, compared to 9 of the 14 (64.3%) OBG+BCL patients and just 7 of the 13 (53.8%) artificial tears+BCL patients.

Remaining wound surface area on Day 1 (24 hours following surgery) was also assessed and similarly favored the OBG-alone cohort which had an average wound size of just 18.5mm. This compares to 40.7mm of the OBG+BCL group and 39.5mm of the artificial tears+BCL cohort.

	Treatment	Day 3 Wound Closure %	Day 1 Wound Surface Area
Arm 1 (n=12)	OBG	75.0%	18.5mm
Arm 2 (n=14)	OBG + BCL	64.3%	40.7mm
Arm 3 (n=13)	SOC*	53.8%	39.5mm
Delta favoring OBG		39.4%	53.2%

* standard-of-care: artificial tears w / BCL

While specifics were not provided relative to adverse events, EYEG did note in their PR that the study demonstrated safety and tolerability.

Given the positive results of the pilot study, EYEG plans to move into a double-blinded study comparing OBG-alone (OGB monotherapy) to BCL and hopes to commence the study in Q2 of this year (following IDE approval). We look forward to hearing details about the planned design and size of this study and note that given the de-risked nature of OBG, if efficacy is confirmed in this follow-up study, we think the likelihood of eventual commercialization could at that point be reasonably high.

FINANCIAL MODEL

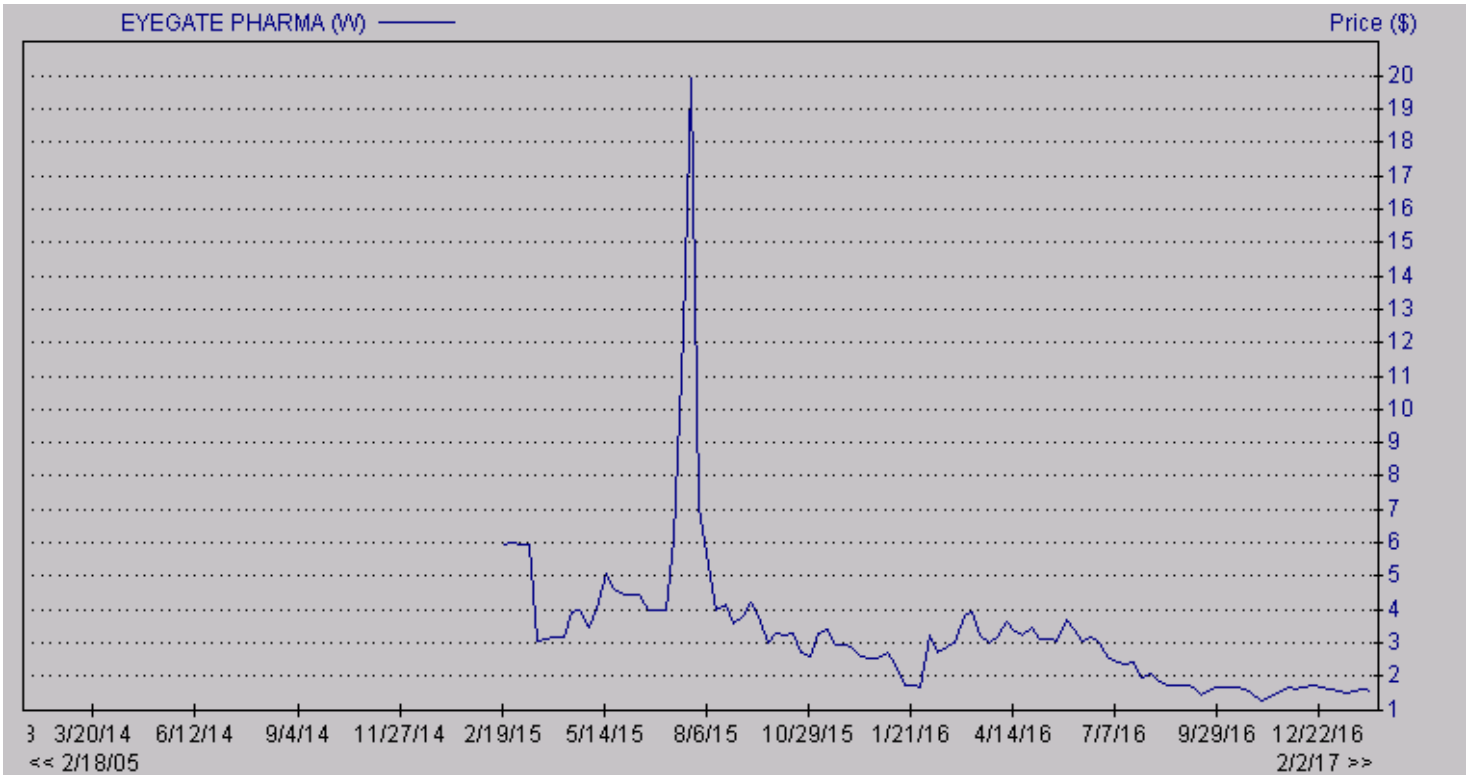
EyeGate Pharmaceuticals Inc. (figures in 000s of $)

	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%	15%	15%	15%
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%	0.2%	1.7%
Number of patients	-	-	-	-	-	**0**	**0**	**2,289**	**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**	**$17.31**	**$153.87**
Milestones w/ haircut	-	-	-	-	-	**$0.00**	**$375.00**	**$750.00**	**$525.00**
CS Total Revenue	-	-	-	-	-	**$0.0**	**$375.0**	**$767.3**	**$678.9**
Product Sales/Royalites	-	-	-	-	-	$0.0	$0.0	$38.1	$204.6
Dvlpmnt / Reg Milestones	-	-	-	-	-	$0.0	$4,375.0	$6,350.0	$3,325.0
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	$4,375	$6,350	$3,325
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	$5,200.0	$6,447.1	$3,714.7
YOY Growth	-	-	-	-	-	-	*630.5%*	*24.0%*	*-42.4%*
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	$5,200.0	$6,447.1	$3,714.7
Gross Margin	-	-	-	-	-	-	-	-	-
R&D	$2,717.1	$914.0	$2,481.5	$2,449.4	$2,468.0	$8,313.0	$8,644.0	$9,178.0	$9,210.0
%R&D	-	-	*1057.8%*	*893.0%*	*1215.8%*	*1167.7%*	*166.2%*	*142.4%*	*247.9%*
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%*	*133.0%*	*114.6%*	*204.7%*
Operating Income	($6,677.6)	($2,442.8)	($3,826.1)	($3,377.0)	($3,909.0)	($13,554.8)	($10,359.0)	($10,121.9)	($13,098.3)
Operating Margin	-	-	*-1630.9%*	*-1231.2%*	*-1925.6%*	*-1904.1%*	*-199.2%*	*-157.0%*	*-352.6%*
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)	($10,359.0)	($10,121.9)	($13,098.3)
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)	($10,359.0)	($10,121.9)	($13,098.3)
YOY Growth	-	-	-	-	-	-	-	-	*29.4%*
Net Margin	-	-	-	-	-	-	-	-	-
EPS	($2.70)	($0.31)	($0.46)	($0.36)	($0.42)	($1.55)	($0.83)	($0.67)	($0.77)
YOY Growth	*-70.7%*	*-90.4%*	*88.5%*	*92.5%*	*19.2%*	*-42.4%*	*-46.7%*	*-18.6%*	*14.2%*
Diluted Shares O/S	6,164	7,847	8,375	9,270	9,400	8,723	12,500	15,000	17,000

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