Zacks Small-Cap Research

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Resverlogix Corp. (RVX - TSX)

RVX Price Decline Unjustified; Reiterate $6.50 Price Target and Highlight 3x Upside

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 (6/13/2017)	$1.46
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 announced successful PK study results for its Phase I renal trial and should commence Phase II studies in 1H:17.

At the current price, we view Resverlogix shares as undervalued, and in a position to provide long-term upside potential. We increase 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	**1.10**
One-Year Return (%)	**17.7**
Beta	**1.0**
Average Daily Volume (sh)	**39,984**
Shares Outstanding (mil)	**105.7**
Market Capitalization ($mil)	**154.2**
Short Interest Ratio (days)	**4.2**
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)
2016	$0.0 A	$0.0 A	$0.0 A	$0.0 A	$0.0 A
2017	$0.0 A	$0.0 A	$0.0 A	$0.0 E	$0.0 E
2018					$0.0 E
2019					$0.0 E

Earnings per Share

	Q1 (Jul)	Q2 (Oct)	Q3 (Jan)	Q4 (Apr)	Year (Apr)
2016	$0.03 A	-$0.04 A	-$0.08 A	-$0.09 A	-$0.20 A
2017	-$0.06 A	-$0.14 A	-$0.12 A	-$0.06 E	-$0.38 E
2018					-$0.26 E
2018					-$0.28 E

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WHAT'S NEW

Resverlogix to Raise 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. We anticipate the final details regarding net proceeds and shares issued will be available in the next week or two. 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 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 limited level of capital targeted in last week's announcement, we anticipate that a larger deal is close at hand which will provide enough cash to fund the $2.0 to $2.5 million per month in anticipated cash burn.

Our current target price of CAD$6.50 per share is conservative in our view due to the risk adjustments that we have made to our estimates and discounted cash flow valuation. With the shares currently below $1.50, there is over $5.00 of upside at these levels.

Following a recent review of pricing for pharmaceutical products that address cardiovascular disease in high risk populations, we raised our target price to $6.50 per share. Our confidence in this target price is supported by several factors including supportive data from completed clinical trials and Data Safety Monitoring Board (DSMB) evaluations for the BETonMACE trial and a substantially large market in the primary indication as well as evidence that apabetalone may address additional indications beyond high risk cardiovascular disease (CVD).

Cardiovascular disease is the number one killer in the world, with near 18 million people dying from this condition each year. There are several high risk subgroups, including those with diabetes and kidney disease, which have shown promise using apabetalone therapy in clinical trials. The United States, Europe and Latin America (RVX's anticipated first markets) contain over six million individuals that could potentially benefit from the therapy, providing a substantial market for apabetalone if commercialized. This ignores other opportunities for apabetalone in other areas such as renal disease and areas where its epigenetic impact improves the regulation of pathways associated with disease.

Resverlogix' lead candidate, apabetalone, is currently in a Phase III clinical trial examining the time to major adverse cardiovascular events (MACE) of this compound on high-risk, type 2 diabetes subjects with cardiovascular disease. Over 1,000 patients have already have completed the various Phase I and II trials and the BETonMACE trial has passed three DSMB evaluations to date. The data presented in these trials has shown a positive safety profile, which is a key risk reduction factor for eventual regulatory agency approval. The only unexpected safety issue observed was transient elevated alanine aminotransferase liver enzymes (ALTs) exceeding three times the upper limit of normal (ULN).

Expected adverse events such as gastrointestinal disorders, upper respiratory tract infections, headache, fatigue and angina pectoris were generally mild and occurred evenly between the test arm and the control. Serious adverse events, which by definition include death, a life-threatening adverse drug experience, hospitalization for more than 24 hours, significant incapacity or other serious event occurred at a rate of 9.7% in the apabetalone group compared to 13.2% in the placebo group in the completed Phase II trials.

We view safety as an important risk predictor regarding ultimate approval by regulatory authorities. Overall, apabetalone's safety profile is very good. Most of the common side effects across the three major Phase II studies were mild and moderate gastrointestinal disorders and infection. The adverse event of interest was elevated ALTs. High ALT levels are sometimes associated with liver damage but generally resolve in subsequent blood tests in the general population. Expert analysis of ALT levels in the clinical trials attributed elevations to underlying hepatitis or liver disease in patients using medications known to cause higher ALT levels. The incidence of elevated ALT greater than 3 times ULN was approximately 8%, and in almost all cases resolved without dose interruption. Due to the rapid fall in ALT levels in patients that continued with the therapy, the lack of Hy's Law confirmation[1] and review by independent specialists, including review by the FDA during the BETonMACE protocol development, we do not see this as a limiting safety factor.

[1] Serum bilirubin was not elevated, while evidence of other underlying conditions such as hepatitis or other medicine use was observed.

With this favorable safety profile, and initial data indicating substantial efficacy on MACE in high risk populations, we maintain our positive view on Resverlogix shares. Our analysis employs a discounted cash flow model which adds an additional layer of risk adjustment based on historical success rates for candidates in Phase III clinical trials. This step adjusts our calculated NPV value with a 64% probability of success to reflect historical approval rates for Phase III clinical trial candidates. Even under these severe constraints, we see upside of over 300% from current levels and highlight the potential in this report.

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 (less likely)
- Debt financing (less likely)

Summary

As a reminder, 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.

Even with competing therapies, many of which have not shown promising levels of efficacy or safety (such as PCSK9 inhibitors), there is a materially large niche for a number of treatments for CVD in the era of personalized medicine.

We recently raised our pricing forecasts for apabetalone based on a study conducted by Destum Partners' DP Analytics division and pricing for other cardiovascular medicines in the market. The increase in NPV value was partially offset by anticipated higher R&D expenses and increases in net debt as Resverlogix pursues additional trials in renal and advanced chronic kidney disease

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. With the recent sell-off in RVX shares, the opportunity for upside has increased. 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. 2016 FY-16 A	Jul. 2016 Q1 A	Oct. 2016 Q2 A	Jan. 2017 Q3 A	Apr. 2017 Q4 E	Apr. 2017 FY-17 E	Apr. 2018 FY-18 E	Apr. 2019 FY-19 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)	$15.7	$6.1	$6.3	$8.7	$7.0	$28.2	$30.0	$32.0
G&A Expense	$4.3	$1.0	$1.3	$1.0	$1.4	$4.6	$5.2	$6.8
Operating Income	($20.0)	($7.1)	($7.6)	($9.7)	($8.4)	($32.8)	($35.2)	($38.8)
Operating Margin	-					-	-	-
Net Finance Activities	$0.3	$0.7	($7.6)	($3.3)	$0.1	($10.1)	$0.5	$0.6
Other Gain / (Loss)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	($19.7)	($6.4)	($15.2)	($13.0)	($8.3)	($42.9)	($34.7)	($38.2)
Taxes & Other	$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%*
Net Income	($19.7)	($6.5)	($15.2)	($13.0)	($8.3)	($42.9)	($34.7)	($38.2)
Reported EPS	**($0.20)**	**($0.06)**	**($0.14)**	**($0.12)**	**($0.06)**	**($0.38)**	**($0.26)**	**($0.28)**
YOY Growth						-	-	-
Diluted Shares Outstanding	101.0	106.8	105.3	105.5	130.0	111.9	131.0	135.0

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

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HISTORICAL STOCK PRICE[2]



[2] Source: Google Finance

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