Zacks Small-Cap Research

June 23, 2017
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Spring Bank Pharmaceuticals Inc. (SBPH - NASDAQ)

Financing Supports Programs Until 2019

Based on our DCF model and a 20% discount rate, SBPH is valued at approximately $33.00 per share. Our model applies a 15% probability of SB9200 sales for chronic hepatitis B virus based on historical Phase 2 success ratios. Our valuation includes geographic contributions from the US, Europe and Asia.

Current Price (6/22/2017)	$13.00
Valuation	**$33.00**

OUTLOOK

Spring Bank Pharma is currently conducting a Phase 2 trial for SB 9200, an immunomodulatory agent built on their small molecule nucleic acid hybrid chemistry platform. The drug targets the RIG-I and NOD2 signaling proteins, engaging the body's immune response to potentially address a variety of diseases including HBV, RSV, HIV Latency and HDV.

In June 2016, the company began dosing its first patient in its ACHIEVE trial with data updates provided throughout 2017. Following several rounds of fundraising, SBPH has sufficient capital to make SB 9200 Phase III ready and support further development of the STING program.

At the current price, we view Spring Bank shares as undervalued, with substantial upside given the size of the Hepatitis B market. We maintain our target price of $33.00 per share and believe that expansion into new diseases and the STING program can provide additional upside to our valuation.

SUMMARY DATA

52-Week High	**16.51**
52-Week Low	**6.31**
One-Year Return (%)	**20.6**
Beta	**N/A**
Average Daily Volume (sh)	**34,145**
Shares Outstanding (mil)	**9.42**
Market Capitalization ($mil)	**122.4**
Short Interest Ratio (days)	**4.69**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
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 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	$0.3 A	$0.1 A	$0.0 A	$0.0 A	$0.4 A
2017	$0.0 A	$0.0 E	$0.0 E	$0.0 E	$0.0 E
2018					$0.0 E
2019					$0.0 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	-$1.11 A	-$0.62 A	-$0.53 A	-$0.13 A	-$2.39 A
2017	-$0.69 A	-$0.48 E	-$0.43 E	-$0.37 E	-$1.75 E
2018					-$1.72 E
2019					-$2.01 E

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WHAT'S NEW

$37.5 Million Public Offering

Spring Bank Pharmaceuticals Inc. (NASDAQ: SBPH) priced its public offering of stock at $13.00 per share yesterday with gross proceeds of $37.5 million. An additional $5.6 million may be raised if the over-allotment option is exercised. Based on anticipated net proceeds of approximately $40 million, Spring Bank has sufficient cash to fund operations until the end of 2019.

The initiatives funded include preclinical and initial Phase 1b clinical work for the STING program (SB 11285) as well as fully funding the Phase 1b for SB 9200 and develop SB 9200 in a fixed dose combination with tenofovir. The additional funds will also enable the company to maintain a strong negotiating position with potential partners and prepare SB 9200 to begin Phase III trials either in-house or with a partner.

The cash infusion will enable a 2H:17 acceleration of preclinical work in preparation for an investigational new drug application (IND) for SB 11285, and we anticipate the trial will commence in 1H:18. The anticipated cost of the preclinical and Phase 1a efforts for SB 11285 is estimated to be from $5 to $10 million and stretch over six quarters, beginning in 3Q:17.

Summary of Capital Raise

- Shares Offered: 2,884,615
- Over Allotment: 432,692
- Price: $13.00 per share
- No Warrants
- Close: Anticipated June 27, 2017

Conclusion

Spring Bank's lead candidate, SB 9200, addresses a global disease that chronically affects 240 million persons in the world and 14 million in the United States and Europe. This capital raise is expected to provide sufficient cash to prepare SB 9200 to be ready to begin Phase III testing and to advance SB 11285 into Phase I human trials. We see this successful public offering as providing sufficient capital to enable Spring Bank to achieve a significant milestone and give the company a strong negotiation position with potential partners.

Key reasons to own:

- **Positive public health environment for the development CHB functional cure**
- **Potential addressable market size of near 4 million patients in developed markets alone**
- **Lack of other effective immunomodulators available in the market**
- **Promising proof of concept data in important animal models for chronic HBV**
- **Well tolerated lead compound with no dose limiting toxicities and promising antiviral activity**
- **Oral therapy superior to infusion and other methods of delivery used for addressing HBV**
- **Fixed duration of therapy**
- **A proprietary technology platform that can be broadly applied in multiple therapeutic indications**
- **Based on cost of current therapies, compound has strong pricing opportunity**
- **Following offering, cash on balance sheet sufficient to make SB 9200 Phase III ready**

In summary, we remain optimistic regarding the promise of Spring Bank Pharmaceuticals' core technology given the data generated to date and the important disease states pursued by the company's portfolio. We maintain our target price of $33.00.

PROJECTED FINANCIALS

Spring Bank Pharmaceuticals Inc. - Income Statement

Spring Bank Pharmaceuticals	2016 A	Q1 A	Q2 E	Q3 E	Q4 E	2017 E	2018 E	2019 E
Grant Revenue	**$0.4**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
YOY Growth	-	-	-	-	-	-	-	-
SB9200	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
YOY Growth								
	$0	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
YOY Growth								
Total Revenues	**$0.4**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
CoGS	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Product Gross Margin								
R&D	$14.0	$2.5	$2.8	$2.7	$2.1	$10.1	$12.0	$13.5
G&A	$5.7	$2.0	$1.7	$1.8	$1.8	$7.2	$8.0	$10.0
Other expenses	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Operating Income	($19.4)	($4.5)	($4.5)	($4.5)	($3.9)	($17.3)	($20.0)	($23.5)
Operating Margin	-					-	-	-
Total Other Income	$2.0	($2.0)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	($17.4)	($6.5)	($4.5)	($4.4)	($3.8)	($17.3)	($20.0)	($23.5)
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	($17.4)	($6.5)	($4.5)	($4.4)	($3.8)	($17.3)	($20.0)	($23.5)
Reported EPS	**($2.39)**	**($0.69)**	**($0.48)**	**($0.43)**	**($0.37)**	**($1.75)**	**($1.72)**	**($2.01)**
YOY Growth	-					-	-	-
Shares Outstanding	7.3	9.4	9.4	10.3	10.3	9.9	11.6	11.7

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

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HISTORICAL STOCK PRICE[1]



[1] Source: Google Finance

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