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RXi Pharmaceuticals Corp (RXII - NASDAQ)

Partner Relationships in TILs to Drive Future Value

Based on our DCF model and a 15% discount rate, RXi Pharmaceuticals is valued at approximately $20.00 per share. Our model applies a 15% probability of ultimate approval and commercialization for RXI-109 and Samcyprone. The model includes contributions from the US, EU and rest of world.

Current Price (5/10/2018)	$2.24
Valuation	**$20.00**

OUTLOOK

RXi Pharmaceuticals has developed a unique composition of interference RNA that is able to self-deliver into the cellular cytoplasm. The compound, sd-rxRNA, combines features of RNAi and antisense, and is able to silence unwanted gene expression with a limited side effect profile.

The company has two Phase II dermal assets and one Phase I/II ocular asset which are expected to be partnered and provide development capital for earlier stage immuno-oncology (IO) programs.

RXi recently directed its main research focus towards its preclinical IO program that is being developed to augment existing cell therapies. A favorable investment and regulatory environment are supportive of IO and should allow for rapid entry into the clinic.

We attach a valuation for the Phase I/II and Phase II assets and expect to see regulatory approvals and subsequent commercialization over the 2022 to 2024 period as described in our analysis.

SUMMARY DATA

52-Week High	**7.70**
52-Week Low	**1.90**
One-Year Return (%)	**-61.4**
Beta	**0.91**
Average Daily Volume (sh)	**370,295**
Shares Outstanding (mil)	**4.26**
Market Capitalization ($mil)	**9.5**
Short Interest Ratio (days)	**4.32**
Institutional Ownership (%)	**28.3**
Insider Ownership (%)	**14.3**
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 USD)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	$0.0 A	$0.0 A	$0.0 A	$0.0 A	$0.0 A
2018	$0.0 A	$0.0 E	$0.0 E	$0.0 E	$0.0 E
2019					$0.0 E
2020					$0.0 E

Earnings per Share

	Q1	Q2	Q3	Q4	Year
2017	-$2.65 A	-$1.12 A	-$1.05 A	-$0.84 A	-$5.52 A
2018	-$0.90 A	-$0.56 E	-$0.51 E	-$0.53 E	-$2.50 E
2019					-$1.75 E
2020					-$1.79 E

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WHAT'S NEW

On May 10, 2018, RXi Pharmaceuticals (NASDAQ: RXII) reported first quarter 2018 results in conjunction with the filing of their 1Q:18 10-Q. RXi reported revenues of $23,000 for the quarter from grants related to BioAxone's work in spinal cord injury, compared to zero in revenues in 1Q:17. Total expenses were $2.3 million in the period, a sharp decrease from the prior year's $7.1 million. The majority of the difference was the recognition of $4.7 million of acquired in-process R&D related to the MirImmune acquisition in 1Q:17, a value which did not appear in in the most recent quarter.

Research and development expenses were $1.4 million in 1Q:18, up 1% compared with the prior period's amount. The change was primarily due to increases in lab supply purchases and manufacturing fees for the immuno-oncology program offset by decreases in clinical-trial related expenses. No in-process R&D was recognized in 1Q:18, compared to $4.6 million in 1Q:17.

General and administrative expenses fell by 20% to $0.9 million due to decreases in professional fees for legal-related services and payroll-related expenses as a result of a decrease in headcount.

Cash balance as of March 31, 2018 was $2.6 million, down from $3.6 million at year end 2017. Cash burn was ($1.9) million in the three month period, compared to ($2.8) in the comparable period. $0.9 million was recognized from financing cash flows, recognizing funds from stock proceeds. Looking ahead to 2018, management anticipates cash burn to be approximately ($2.0) million per quarter, as the dermatology and ophthalmology programs wrap up and the main focus is directed toward the preclinical IO programs. Following the end of the quarter, RXi raised $130,000 from Lincoln Park Capital and $4.1 million from a stock offering, increasing the cash balance sufficiently to support operations until 2019.

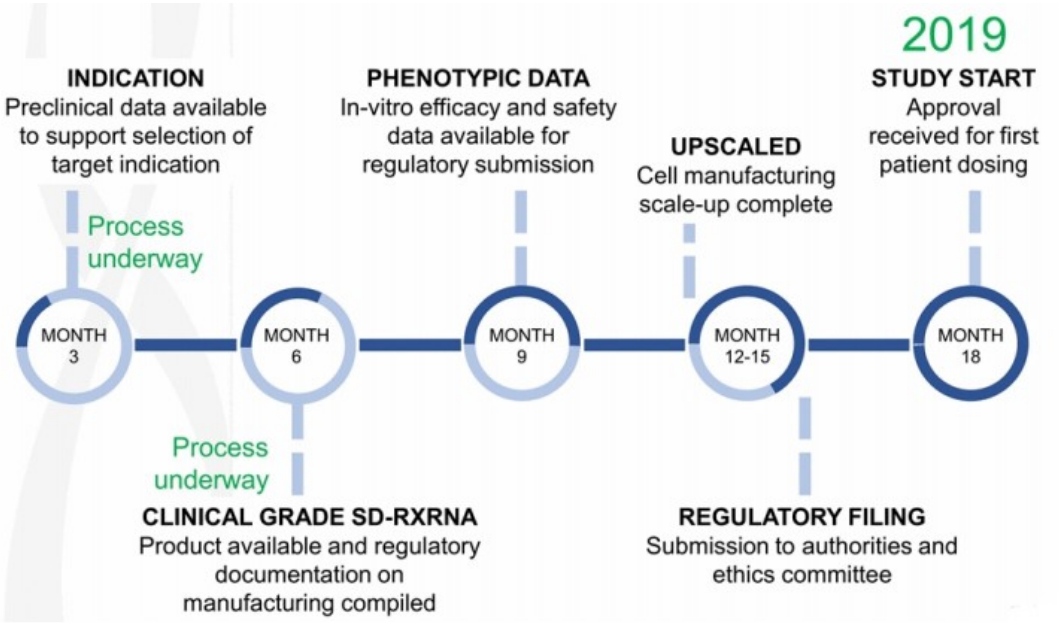
Data and results remain outstanding for the RXI-109 trial in retinal scarring and the Samcyprone trial in warts. Both results are expected to be promulgated prior to the end of the second quarter. RXi is scheduled to present a poster on results from the Samcyprone trial on May 18 at the International Investigative Dermatology meeting in Florida. Following the availability of the trial results, RXi will set up data rooms for interested buyers. An advisory firm has been hired to reach out to companies in dermatology and ophthalmology and gather interest in the assets. The company continues to work with an investment banking intermediary to review the interest in the program and identify an appropriate suitor. We anticipate a transaction to take place in the second half of 2018.

RXi has updated its timeline and now plans to provide the readout for its Samcyprone Phase II trial and its RXI-109 retinal scarring trial in 2Q:18. The data collected from the studies required additional formatting and analysis compared to what was originally expected. The data and analysis is being compiled and presented so that it will satisfy both potential acquirors and regulatory agencies. During the call, management also highlighted its immuno-oncology candidates, including RXI-762, which is being developed to target PD-1 receptors in cell therapy. Current Good Manufacturing Process (cGMP) compliant product is expected to be available this summer to use in preclinical work. Following close behind RXI-762 is RXI-804, which is targeting the TIGIT immune receptor, which is present on some T-cells and naturall killer cells. Based on the current state of the development program for IO, the company anticipates having RXI-762 in the clinic in the next 12 to 18 months. During their quarterly call, RXi announced a new collaboration with Iovance to explore combination opportunites for sd-rxRNA and Iovance's tumor-infiltrating lymphocytes (TILs) for the treatment of cancer. The goal is to broaden the applicability of sd-rxRNA to other tumor types such as solid tumors.

The company's other partnerships also include collaborations with TILs and the fastest route to the clinic appears to the be the work RXi is pursuing with CCIT in Denmark examining various cancer types incuding melanoma and ovarian cancer. Right now, the collaboration is developing the preclincal package, refining the cell expansion protocol and performing the toxicology write-up. Concurrent with this work, the manufacturer of the sd-rxRNA expects a cGMP batch of material to be ready this summer. Achieving these milestones will advance the timeline to the next stage.

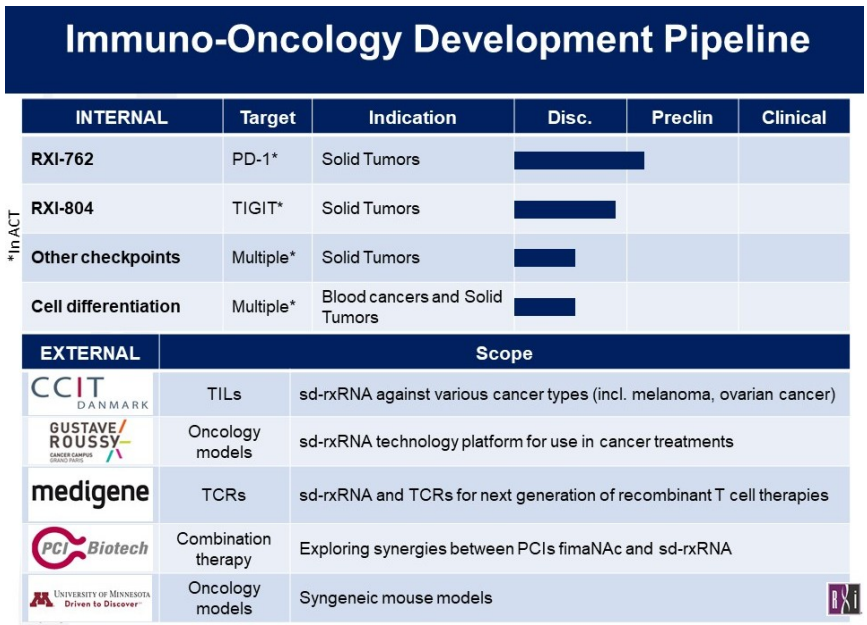
RXi has provided an exhibit that illustrates the milestones they expect to achieve as they develop the oncology assets, which is provided below.

Exhibit I – Oncology Assets in the Clinic



Below is the latest pipeline graphic for RXi, which also includes the partnerships that are helping to develop the discovery and preclinical pipeline. The lead aset is RXI-762, which seeks to increase the expression of PD-1 in cell based therapies. Earlier stage programs are targeting the immune receptor TIGIT in solid tumors among other checkpoints. Cell differentiation is another program that is seeking to extend the life of modified immune cells so they will work longer.

Exhibit II – RXi Therapeutic Pipeline



Grant Award

RXi's partner, BioAxone Biosciences received a grant award from the National Institute of Neurological Disorders and Stroke and will share in the amount. In the first year of the grant, RXi will receive approximately $129,000 from the grant, and if certain milestones are met, and additional $129,000 in the second year of the grant. During the first quarter, RXi received $23,000. This is related to the development of sd-rxRNA that is targeting the downregulation of the PTEN protein, which, when expressed, is thought to inhibit axon regeneration.

2018 Milestones:

- Capital Draw from Lincoln Park Capital – 1Q:18
- Equity capital raise – 2Q:18
- Patent Grant for use of sd-rxRNA targeting CTGF for treatment of fibrotic disorders – May 2018
- Partner Iovance (NASDAQ: IOVA) added for TIL competency – May 2018
- Report of Retinal Scarring trial results – 2Q:18
- Report of Cutaneous Warts trial results – May 18, 2018 at IID
- Partnership/Sale of Dermatology and Ophthalmology Programs – 2H:18
- Entry of Immuno-Oncology Programs into the Clinic - 2019

In summary, we believe that RXi's sd-rxRNA platform has advanced candidates with convincing safety data and proof of concept for large and lucrative indications. Few competing therapies in scarring and an immense market in warts provide many opporutunities for a global health company to exploit, in turn providing a favorable partnership environment for RXi. The exciting work in immuno-oncology is expected to soon be in the clinic, providing yet another component of value to our current target price. While our valution only accounts for sales of RXI-109 and Samcyprone, the company's other candidates will maintain our focus as they advance. We maintain our target price of $20.00.

PROJECTED FINANCIALS

RXi Pharmaceuticals Corp. - Income Statement

RXi Pharmaceuticals Corp	2017 A	Q1 A	Q2 E	Q3 E	Q4 E	2018 E	2019 E	2020 E
Total Revenues	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
YOY Growth								
Research & Development	$5.4	$1.4	$1.4	$1.3	$1.4	$5.5	$7.0	$8.0
Acquired In-process R&D	$4.7	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	
General & Administrative	$4.0	$0.9	$0.9	$0.9	$0.9	$3.6	$4.4	$4.5
Income from operations	($14.1)	($2.2)	($2.3)	($2.2)	($2.3)	($9.0)	($11.4)	($12.5)
Operating Margin	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Interest Income	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Other Income	($0.0)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	($14.1)	($2.2)	($2.3)	($2.2)	($2.3)	($9.0)	($11.4)	($12.5)
Provision for Income Tax	($1.6)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*11.5%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Net Income	**($12.5)**	**($2.2)**	**($2.3)**	**($2.2)**	**($2.3)**	**($9.0)**	**($11.4)**	**($12.5)**
Reported EPS	**($5.52)**	**($0.90)**	**($0.56)**	**($0.51)**	**($0.53)**	**($2.50)**	**($1.75)**	**($1.79)**
YOY Growth								
Basic Shares Outstanding	2.26	2.49	4.10	4.30	4.35	3.81	6.50	7.00

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

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HISTORICAL STOCK PRICE

RXi Pharmaceuticals Corp. – Share Price Chart



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