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ContraFect Corp.

(CFRX-NASDAQ)

CFRX: No Safety Issues Noted Thus Far in Phase 2 Trial of CF-301…

Based on our probability adjusted DCF model that takes into account potential future revenues from CF-301 in bacteremia and CF-404 in influenza, CFRX is valued at $7/share. This model is highly dependent upon continued clinical success of CF-301 and CF-404 and will be adjusted accordingly based upon future clinical results.

Current Price (03/21/18)	$1.94
Valuation	**$7.00**

OUTLOOK

On March 15, 2018, ContraFect Corp. (CFRX) announced financial results for the fourth quarter and full year 2017 and provided a business update. The company is currently conducting a Phase 2 clinical trial of CF-301, the company's lead lysin product candidate, in patients suffering from bacteremia including endocarditis due to *Staphylococcus aureus* infection. The company recently announced that based on a review of blinded safety data there have been no serious adverse events reported to be related to study drug, no adverse event reports of hypersensitivity, and no discontinuation of study drug due to adverse events. We continue to expect topline data from the trial in the fourth quarter of 2018.

SUMMARY DATA

52-Week High	**$2.17**
52-Week Low	**$0.88**
One-Year Return (%)	**2.11**
Beta	**-0.62**
Average Daily Volume (sh)	**217,955**
Shares Outstanding (mil)	**74**
Market Capitalization ($mil)	**$143**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**62**
Insider Ownership (%)	**9**
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 2018 Estimate	**-4.6**
P/E using 2019 Estimate	**-4.0**

Risk Level	**High,**
Type of Stock	**Small-Growth**
Industry	**Med-Drugs**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	0 A	0 A	0 A	0 A	0 A
2018	0 A	0 A	0 A	0 E	0 E
2019					0 E
2020					0 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	-$0.15 A	-$0.07 A	-$0.02 A	-$0.06 A	-$0.28 A
2018	-$0.09 E	-$0.09 E	-$0.09 E	-$0.09 E	-$0.34 E
2019					-$0.36 E
2020					-$0.37 E

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Business Update

No Safety Issues Thus Far in Phase 2 Trial of CF-301

ContraFect Corp. (CFRX) is currently conducting a Phase 2 clinical trial of CF-301, the company's lead lysin product candidate, in patients with bacteremia, including those with endocarditis, which is caused by both methicillin-resistant (MRSA) and methicillin-sensitive (MSSA) strains of *Staphylococcus aureus*. The trial is an international, multicenter, randomized, double blind, placebo controlled study with a superiority comparison between CF-301 or placebo combined with the standard of care antibiotics. The study will include 115 patients randomized 3:2 to receive a single dose of 0.25 mg/kg CF-301 administered via a two-hour infusion or placebo along with standard of care antibiotics. The primary endpoint of the study will be early clinical response. Safety, tolerability, and pharmacokinetics will also be examined along with additional exploratory clinical and health economic endpoints. We anticipate topline results in the fourth quarter of 2018. The company is not planning to perform an interim analysis.

Based on a review of safety data examined after approximately one-third of target enrollment was reached in the Phase 2 trial, there have been no serious adverse events related to study drug, no reports of adverse events due to hypersensitivity reactions related to study drug, and no discontinuations of study drug due to adverse events. Since CF-301 is the first lysin to be tested in humans it is important to show that it can be safety administered, thus we are encouraged by the fact that no safety issues have been reported thus far. ContraFect previously conducted a Phase 1 clinical trial of CF-301 in healthy volunteers, with no adverse safety signals reported, and the encouraging safety data from the Phase 2 trial adds to our confidence in the ability of CF-301 to be used safely to treat patients.

The Data Safety Monitoring Board (DSMB) has recommended that patients with moderate to severe renal insufficiency be administered 0.12 mg/kg CF-301 instead of 0.25 mg/kg such that those patients attain the target pharmacokinetic exposure. This recommendation was not made due to any observed safety concerns.

Additional Lysin Development Products

CF-301 Variant: ContraFect is working on developing variants of CF-301 that have improved characteristics regarding biofilm destruction on "non-natural" surfaces (e.g., prosthetic joints, central lines, etc.). The company has a lead variant, CF-296, which it believes has properties that will make it amenable to better treating certain *S. aureus* infections. The compound is currently being evaluated in animal models.

Gram-negative Program: The company has a discovery program dedicated to discovering lysin's effective against Gram-negative bacteria, particularly those strains that are serious threats to global health (as denoted by the CDC) or critical priorities (as denoted by the WHO). The company has identified a development candidate that has activity against *Psuedomonas aeruginosa* that is able to penetrate the lipopolysaccharide outer membrane (which is common to all Gram-negative bacteria), representing a breakthrough in the field. Further optimization is ongoing such that a lead candidate can be identified and evaluated through IND-enabling studies.

CF-404 Update

CF-404 is a product designed to treat influenza and is composed of a mixture of three monoclonal antibodies (mAbs) directed against the three principal strains of the influenza virus (H1, H3, and B). The mAbs target conserved regions on the virus, which do not mutate from season to season (which is the reason that a new influenza vaccine needs to be formulated each year). The company is developing CF-

404 as an inhaled therapy, which is likely to result in a lower dose than would be required with a systemic therapy and will allow it to more directly target the virus as it resides in the respiratory tract. ContraFect is finalizing the inhaled formulation, which we anticipate will be complete by mid-2018.

Financial Update

On March 15, 2018, ContraFect announced financial results for the fourth quarter and full year 2017. As expected, the company did not report any revenues for the quarter or full year. Net loss for the fourth quarter of 2017 was $4.8 million, or $0.06 per share, compared to net income of $0.6 million, or $0.01 per share, in the fourth quarter of 2017. The change in net loss was due to a decrease of $4.7 milliion in the non-cash gain fro the change in the fair value of warrant liabilities. R&D expenses in the fourth quarter of 2017 were $4.4 million compared to $4.5 million in the fourth quarter of 2016. G&A expenses were $3.0 million in the fourth quarter of 2017 compared to $2.3 million in the fourth quarter of 2016.

For 2017, the company reported a net loss of $15.5 million, or $0.28 per share, compared to a net loss of $28.5 million, or $0.85 per share, in 2016. The change in net loss includes an increase of $5.2 million in the non-cash gain for the change in fair value of warrant liabilities. R&D expenses in 2017 were $17.3 million compared to $22.1 million in 2016. The decrease in R&D expenses was primarily attributable to lower research headcount, fewer external consultants, and the receipt of grant funding during 2017. G&A expenses in 2017 were $9.2 million compared to $11.4 million in 2016. The decrease in G&A expenses was due to lower severance costs, administrative headcount, and legal costs.

As of Dec. 31, 2017, ContraFect had cash and cash equivalents of approximately $46.9 million, which we believe is sufficient to fund operations into the second quarter of 2019. As of Mar. 7, 2018, the company had approximately 73.7 million shares outstanding, and when factoring in stock options and warrants the fully diluted share count stands at approximately 116.1 million.

Conclusion

We're glad to hear that the analysis of safety data has revealed no safety signals in the ongoing Phase 2 trial and we look forward to analyzing the data when its released in the fourth quarter of 2018. Once the company announces when the final patient has been dosed we'll have a better sense of exactly when the topline data will be released. In addition to the ongoing Phase 2 clinical trial, it's encouraging to see that the company is working on developing its lysin pipeline, with advances continuing to be made in lysin development candidates for both Gram-positive and Gram-negative species. Our valuation currently stands at $7 and given the wide disparity between our valuation and the current stock price we believe investors would be well served to take a closer look at the company in the lead up to the Phase 2 data.

PROJECTED FINANCIALS

ContraFect Corp.	2017 A	Q1 E	Q2 E	Q3 E	Q4 E	2018 E	2019 E	2020 E
CF-301 (Bacteremia)	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth		-	-	-	-			
CF-404 (Flu)	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth		-	-	-	-			
Grants & Collaborative Revenue	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth		-	-	-	-			
Total Revenues	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
YOY Growth		-	-	-	-			
Cost of Sales	$0	$0	$0	$0	$0	$0	$0	$0
Product Gross Margin		-	-	-	-			
Research & Development	$17.3	$4.4	$4.4	$4.5	$4.6	$17.9	$19.0	$20.0
General & Administrative	$9.2	$2.2	$2.4	$2.4	$2.4	$9.4	$10.0	$10.5
Other Expenses	$0	$0	$0	$0	$0	$0	$0	$0
Operating Income	($26.6)	($6.6)	($6.8)	($6.9)	($7.0)	($27.3)	($29.0)	($30.5)
Operating Margin		-	-	-	-			
Non-Operating Expenses (Net)	$11.0	$0.0	$0.0	$0.0	$0.0	$0.0	($0.4)	($0.4)
Pre-Tax Income	($15.5)	($6.6)	($6.8)	($6.9)	($7.0)	($27.3)	($29.4)	($30.9)
Income Taxes Paid	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	**($15.5)**	**($6.6)**	**($6.8)**	**($6.9)**	**($7.0)**	**($27.3)**	**($29.4)**	**($30.9)**
Net Margin		-	-	-	-			
Reported EPS	**($0.28)**	**($0.09)**	**($0.09)**	**($0.09)**	**($0.09)**	**($0.34)**	**($0.36)**	**($0.37)**
YOY Growth		-	-	-	-			
Basic Shares Outstanding	55.6	74.2	74.3	74.4	76.0	80.0	82.0	84.0

Source: Zacks Investment Research, Inc. *David Bautz, PhD*

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