# Zacks Small-Cap Research

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## RXi Pharmaceuticals Corp (RXII - NASDAQ)

### *TIL Program Moving Forward while Waiting on Partnerships*

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 (3/27/2018) | $3.29 |
| **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** | **11.20** |
| **52-Week Low** | **2.51** |
| **One-Year Return (%)** | **-56.6** |
| **Beta** | **1.43** |
| **Average Daily Volume (sh)** | **304,295** |
| **Shares Outstanding (mil)** | **2.59** |
| **Market Capitalization ($mil)** | **8.6** |
| **Short Interest Ratio (days)** | **4.32** |
| **Institutional Ownership (%)** | **2.6** |
| **Insider Ownership (%)** | **17.9** |
| **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 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) |
|---|---|---|---|---|---|
| 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 A | $0.0 A |
| 2018 | | | | | $0.0 E |
| 2019 | | | | | $0.0 E |

**Earnings per Share**

| | Q1 | Q2 | Q3 | Q4 | Year |
|---|---|---|---|---|---|
| 2016 | -$3.41 A | -$3.40 A | -$3.36 A | -$3.19 A | -$13.33 A |
| 2017 | -$2.65 A | -$1.12 A | -$1.05 A | -$0.84 A | -$5.52 A |
| 2018 | | | | | -$3.44 E |
| 2019 | | | | | -$3.59 E |


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## WHAT'S NEW

On March 26, 2018, RXi Pharmaceuticals (NASDAQ: RXII) reported fourth quarter and full year 2017 results in conjunction with the filing of their 2017 10-K. RXi reported revenues of $15,000 for the year from grants related to BioAxone's work in spinal cord injury, compared to $19,000 in revenues in 2016. Total expenses were $14.1 million in 2017, an increase from the prior year's $9.0 million. The majority of the difference was the recognition of $4.7 million of acquired in-process R&D from MirImmune, which did not appear in 2016.

Research and development expenses were $5.4 million for the full year, flat with the prior period's amount. The addition of the immuno-oncology program from MirImmune was offset by lower spending on clinical trial related expenses as patient visits in each of the company's ongoing clinical trials came to an end.

General and administrative expenses rose by 11% to $4.0 million for the full year on higher payroll related expenses, severence benefits and legal related services. These increases were offset by lower stock-based compensation expenses.

A tax benefit in the amount of $1.6 million was recognized for the year, and related to the first quarter 2018 MirImmune transaction.

Cash balance as of year end 2017 was $3.6 million, down from $12.9 million at year end 2016. Cash burn was ($9.7) million for the year, compared to ($7.8) million in 2016. Only minimal contributions were made from financing cash flows. On a quarterly basis, cash burn was approximately ($2.5) million per quarter. Looking ahead to 2018, management anticipates cash burn to decline to about ($2.0) million per quarter, as the dermatology and ophthalmology programs wrap up and the main focus is directed toward the preclinical IO programs.

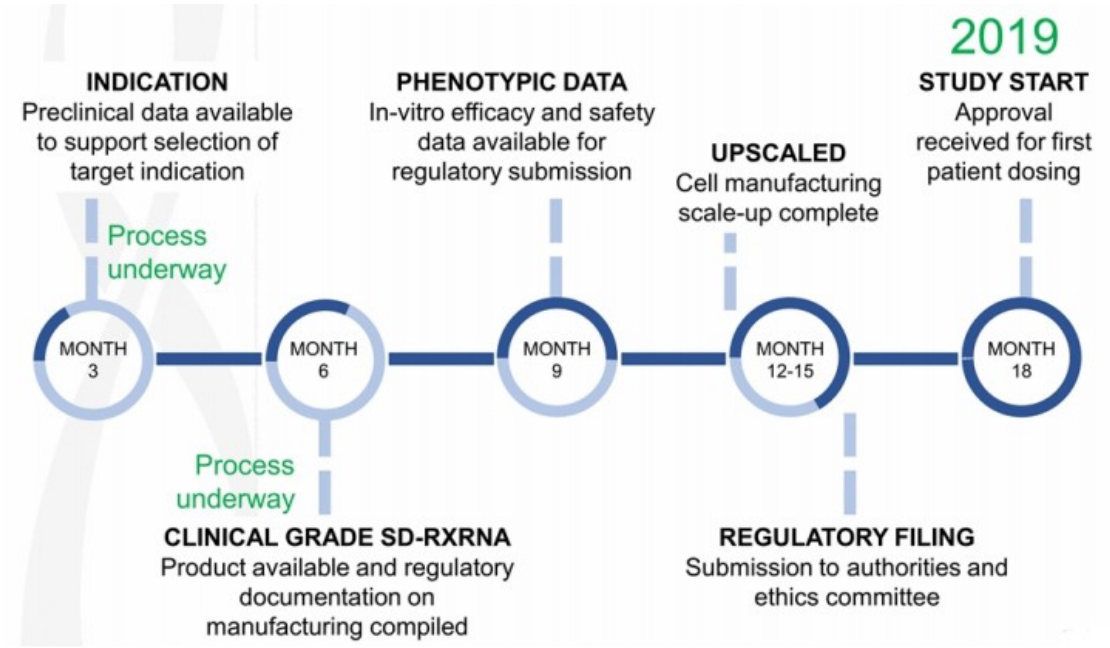
During 2017, RXi shifted its focus from its clinical dermatology and ophthalmology assets toward its immuno-oncology program. The company found a good stopping point for its Phase II work for RXI-109 and Samcyprone and will seek a partner to develop these assets through Phase III and commercialization. Currently, the company is working with an investment banking intermediary to review the interest in the program and identify an appropriate suitor.

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. The company has begun the required preclinical studies using tumor infiltrating lymphocytes for melanoma and ovarian cancer. On the manufacturing and controls side, current good manufacturing practice (cGMP) providers have been identified to produce a clinical batch of RXI-762 in the next few months. 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.

The fastest route to the clinic appears to the be the work RXi is doing with tumor infiltrating lymphocytes (TILs). This is the program which is being developed in conjunction with CCIT in Denmark and is examining various cancer types incuding melanoma and ovarian cancer. Right now, the collaboration is working on 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 sometime late in the second quarter. Achieving these milestones will push the timeline to the next stage.

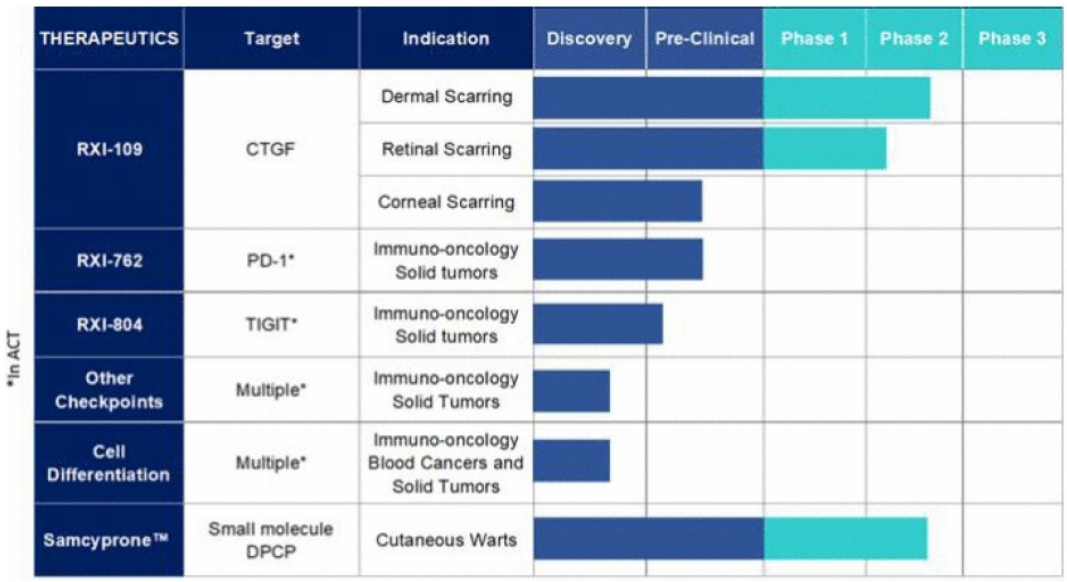
RXi has provided an exhibit that illustrates the milestones they expect to achieve as they develop the oncology assets, which is provided below.

**Exhibit I – Oncology Assets in the Clinic**




Below is the most recent therapeutic pipeline for RXi, including the dermatology and ophthalmology assets as well as the immuno-oncology assets. This new pipline chart includes additional detail regarding the discovery stage assets which are targeted to be in checkpoint inhibitors besides PD-1 and TIGIT and cell differentiation for solid tumors and blood cancers.

**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. 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.

RXi highlighted several of the accomplishments in the year:

- Acquisition of MirImmune – January 2017
- Scientific Advisory Board Augmented – 2017
- $15 million common stock purchase agreement – August 2017
- Grant award to partner BioAxone Biosciences – September 2017
- Results for RXI-231 announced in three studies – November 2017
- Results announced for RXI-109 Phase II trial in Dermal Scarring – December 2017
- Development of Partnerships and Collaborations
    - PCI Biotech – synergy with fimaNAc technology – May 2017
    - Gustave Roussy – oncology models – November 2017
    - Medigene – TCRs – December 2017
    - Herlev Hospital – TILs – December 2017
- Announce planned partnership for dermatology and ophthalmology assets – January 2018
- Regain compliance with NASDAQ listing requirements – January 2018

Upcoming Milestones:

- Anticipated Attendance at Various Investor Conferences
- Anticipated Attendance at Various Scientific Conferences
- Capital Draw from Lincoln Park Capital – 1H:18
- Equity capital raise – 1H:18
- Report of Retinal Scarring trial results – 1H:18
- Report of Cutaneous Warts trial results – 1H:18
- 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 | 2016 A | Q1 A | Q2 A | Q3 A | Q4 A | 2017 A | 2018 E | 2019 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 | $1.3 | $1.3 | $1.5 | $1.2 | $5.4 | $5.5 | $6.5 |
| Acquired In-process R&D | $0.0 | $3.0 | $0.1 | $0.0 | $0.0 | $4.7 | $0.0 | $0.0 |
| General & Administrative | $3.6 | $1.1 | $1.1 | $1.0 | $0.8 | $4.0 | $3.6 | $4.4 |
| Income from operations | ($9.0) | ($5.5) | ($2.5) | ($2.5) | ($2.0) | ($14.1) | ($9.1) | ($10.9) |
| *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 | ($9.0) | ($5.5) | ($2.5) | ($2.5) | ($2.0) | ($14.1) | ($9.1) | ($10.9) |
| Provision for Income Tax | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $1.6 | $0.0 | $0.0 |
| *Tax Rate* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *0.0%* | *-11.5%* | *0.0%* | *0.0%* |
| **Net Income** | **($9.0)** | **($5.5)** | **($2.5)** | **($2.5)** | **($2.0)** | **($12.5)** | **($9.1)** | **($10.9)** |
| | | | | | | | | |
| **Reported EPS** | **($13.33)** | **($2.65)** | **($1.12)** | **($1.05)** | **($0.84)** | **($5.52)** | **($3.44)** | **($3.59)** |
| *YOY Growth* | | | | | | | | |
| Basic Shares Outstanding | 0.675 | 2.057 | 2.239 | 2.351 | 2.379 | 2.258 | 2.65 | 3.05 |

*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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