Zacks Small-Cap Research
Sponsored – Impartial - Comprehensive

August 13, 2018
David Bautz, PhD
312-265-9471
dbautz@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

ContraFect Corp. (CFRX-NASDAQ)

CFRX: Data from Phase 2 Trial of CF-301 in 4Q18…

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 $6/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 (08/13/18)	$2.03
Valuation	**$6.00**

OUTLOOK

ContraFect Corp. (CFRX) is currently conducting a Phase 2 clinical trial of CF-301, the company's lead development lysin product, in patients with bacteremia, including those with endocarditis, which is caused by both methicillin-resistant (MRSA) and methicillin-sensitive (MSSA) strains of *S. aureus*. We continue to expect topline data from the study in 4Q18.

The company recently completed an underwritten public offering of 5.75 million shares of common stock at $2.00 per share, which included the fully exercised overallotment option granted to the underwriters. Net proceeds to the company were approximately $10.4 million. We estimate this is enough capital to fund operations through 2019.

SUMMARY DATA

52-Week High	**$2.82**
52-Week Low	**$0.88**
One-Year Return (%)	**62.40**
Beta	**-0.51**
Average Daily Volume (sh)	**225,287**
Shares Outstanding (mil)	**79**
Market Capitalization ($mil)	**$161**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**59**
Insider Ownership (%)	**7**
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	**Above Avg.**
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 E	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	-$0.26 A	-$0.27 A	-$0.09 E	-$0.09 E	-$0.70 E
2019					-$0.36 E
2020					-$0.37 E

© Copyright 2018, Zacks Investment Research. All Rights Reserved.

WHAT'S NEW

Business Update

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 is expected to enroll 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 75% of target enrollment was reached in the Phase 2 trial, there have been no serious adverse events related to study drug. 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.

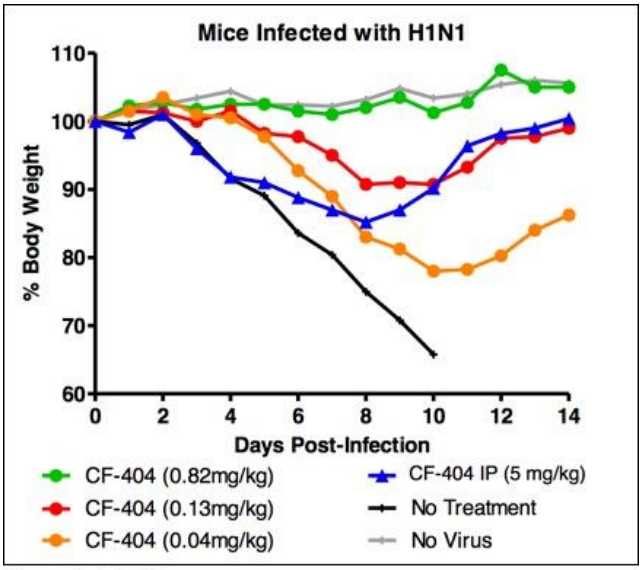
Additional Lysin Development Products

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. The company recently presented data on the *P. aeruginosa* lysin program and for an overview of the data please see our previous report.

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 currently finalizing the inhaled formulation of the drug. The following figure shows that inhaled CF-404 is active in a mouse H1N1 influenza model (as judged by maintenance of body weight).



Source: ContraFect Corp.

Financial Update

On August 9, 2018, ContraFect announced financial results for the second quarter of 2018. As expected, the company did not report any revenues for the quarter. Net loss for the second quarter of 2018 was $20.1 million, or $0.27 per share, compared to a net loss of $2.8 million, or $0.07 per share in the second quarter of 2017. The majority of this net loss was due to a $16 million increase in non-cash expense due to the change in fair value of warrant liabilities. R&D expenses for the second quarter of 2018 were $5.3 million compared to $3.8 million for the second quarter of 2017. The increase was primarily due to increased spending on the Phase 2 clinical trial of CF-301. G&A expenses in the second quarter of 2018 were $2.2 million compared to $2.3 million in the second quarter of 2017. The decrease was due to decreased costs for financial filing fees.

As of June 30, 2018, ContraFect had approximately $33.3 million in cash, cash equivalents, and marketable securities. Subsequent to the end of the quarter, ContraFect raised approximately $10.4 million in net proceeds from a public offering of 5.75 million shares of common stock at $2.00 per share, which included the fully exercised overallotment option granted to the underwriters. We anticipate the company currently has sufficient capital to fund operations through 2019. As of August 7, 2018, the company had approximately 79.4 million common shares outstanding and when factoring in stock options and warrants a fully diluted share count of approximately 118.4 million.

Conclusion

We are looking forward to the topline data from the Phase 2 trial of CF-301 in the fourth quarter of 2018. We believe the lack of any safety issues thus far (with approximately 75% of the expected number of patients enrolled) is a very encouraging sign. The company is now well capitalized to get through the data readout and continue development of the rest of the lysin pipeline and CF-404. Our valuation currently stands at $6 and 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 A	Q2 A	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	$4.7	$5.3	$4.8	$4.9	$19.7	$19.5	$20.0
General & Administrative	$9.2	$2.2	$2.2	$2.4	$2.4	$9.3	$10.0	$10.5
Other Expenses	$0	$0	$0	$0	$0	$0	$0	$0
Operating Income	($26.6)	($7.0)	($7.5)	($7.2)	($7.3)	($29.0)	($29.5)	($30.5)
Operating Margin		-	-	-	-			
Non-Operating Expenses (Net)	$11.0	($12.1)	($12.6)	$0.0	$0.0	($24.8)	($0.4)	($0.4)
Pre-Tax Income	($15.5)	($19.1)	($20.1)	($7.2)	($7.3)	($53.7)	($29.9)	($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)**	**($19.1)**	**($20.1)**	**($7.2)**	**($7.3)**	**($53.7)**	**($29.9)**	**($30.9)**
Net Margin		-	-	-	-			
Reported EPS	**($0.28)**	**($0.26)**	**($0.27)**	**($0.09)**	**($0.09)**	**($0.70)**	**($0.36)**	**($0.37)**
YOY Growth		-	-	-	-			
Basic Shares Outstanding	55.6	73.7	73.7	79.0	79.5	76.5	82.0	84.0

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

© Copyright 2018, Zacks Investment Research. All Rights Reserved.

HISTORICAL STOCK PRICE



© Copyright 2018, Zacks Investment Research. All Rights Reserved.

DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, David Bautz, PhD, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.