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Zacks Small-Cap Research

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Stellar Biotech (SBOT-NASDAQ)

SBOT: NCI Supply Contract: Highlights Growing Interest of KLH for Cancer Immunotherapies

We forecast revenue in "phase 1" of our model to grow from $228k in 2017 to ~$700k in 2018 and to $4.6M in 2020. And then in "phase 2" to grow to almost $67M in 2026. Our DCF model, which uses a 12% discount rate and 2% terminal growth rate, values SBOT shares at approximately $7.50.

Current Price (09/20/18)	$1.43
Valuation	**$7.50**

OUTLOOK

SBOT announced that they entered an agreement with NIH to supply their KLH for government-sponsored studies. SBOT's KLH will be used in one or more dendritic cell-based cancer therapy programs sponsored by NIH's NCI. Dendritic cell vaccines have shown potent cancer fighting ability and have quickly become one of the most promising areas of cancer research. Dendritic cell vaccines represent a potential near-term breakthrough in cancer therapy and Stellar likely represents the only source of reliable capacity and quality KLH. While we currently have little insight into the potential significance of this agreement in terms of revenue, we think it is meaningful as providing additional validation of SBOT's manufacturing capabilities and the importance of traceability of the source of KLH. It also adds additional credence to the potential utility of KLH in these new cancer immunotherapies – related research and development around which has massively accelerated over the last few years. Stellar has previously received more than $4M of funding from SBIR programs, including at least $3M related to a previous NCI award. That funding was a significant catalyst to building out their manufacturing and aquaculture capabilities.

SUMMARY DATA

52-Week High	**$10.15**
52-Week Low	**$1.32**
One-Year Return (%)	**-82.85**
Beta	**0.13**
Average Daily Volume (sh)	**881,628**
Shares Outstanding (mil)	**5**
Market Capitalization ($mil)	**$8**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**12**
Insider Ownership (%)	**11**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**-19.1**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2018 Estimate	**N/A**
P/E using 2019 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**Small-Value**
Industry	**Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Dec)	Q2 (Mar)	Q3 (Jun)	Q4 (Sep)	Year (Sep)
2017	0.1 A	0.1 A	0.0 A	0.0 A	0.2 A
2018	0.0 A	0.1 A	0.1 E	0.5 E	0.7 E
2019					2.9 E
2020					4.6 E

Earnings per Share

	Q1 (Dec)	Q2 (Mar)	Q3 (Jun)	Q4 (Sep)	Year (Sep)
2017	-$1.03 A	-$0.76 A	-$0.84 A	-$0.81 A	-$3.44 A
2018	-$0.93 A	-$0.90 A	-$0.45 E	-$0.24 E	-$1.93 E
2019					-$1.36 E
2020					-$1.10 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

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WHAT'S NEW…

SBOT Scores National Institutes of Health / NCI Supply Agreement
Securing more KLH supply agreements has been one of SBOT's strategic objectives and earlier this month the company made additional headway on that goal. In early September Stellar (SBOT) announced that they entered an agreement with the U.S. National Institutes of Health (NIH) to supply their proprietary KLH for government-sponsored studies.

While details regarding the potential breadth of the agreement with NIH or specifics about which particularly programs SBOT will support, were not disclosed, the press release does indicate that SBOT's KLH will be used in cancer immunotherapy studies. That includes one or more dendritic cell-based cancer therapy programs sponsored by NIH's National Cancer Institute which will use a vialed formulation of SBOT's KLH.

Dendritic cell vaccines have shown potent cancer fighting ability and have quickly become one of the most promising areas of cancer research. Preparation of dendritic cell vaccines involves extracting (precursor) dendritic cells from the body and then loading them with tumor antigens. They are then put back in the body where they seek out and destroy cancer cells. Studies have indicated that KLH, when combined with the dendritic cells, can enhance immunotherapies' cancer killing efficacy.

While we currently have little insight into the potential significance of this agreement in terms of revenue, we think it is meaningful as providing additional validation of SBOT's manufacturing capabilities (in regards to both quality and capacity) and the importance of traceability of the source of KLH. It also adds additional credence to the potential utility of KLH in these new cancer immunotherapies – related research and development around which has massively accelerated over the last few years.

Our quick query of clinicaltrials.org using search terms 'dendritic, KLH' under a generic 'cancer' indication returned 27 studies – while several are dated, this list likely represents only a fraction of related programs (and also does not include all of the preclinical programs). Our point being that, dendritic cell vaccines represent a potential near-term breakthrough in cancer therapy and Stellar likely represents the only source of reliable capacity and quality KLH

And while this is the latest government agreement that SBOT received, it is not the first. In fact, Stellar has previously received more than $4M of funding from SBIR programs, including at least $3M related to a previous NCI award. That funding was a significant catalyst to building out Stellar's manufacturing and aquaculture capabilities.

Stellar Biotechnologies

	2017 A	Q1 A	Q2 A	Q3 E	Q4 E	2018 E	2019 E	2020 E	2021 E
Total Revenues	$228.3	$20.5	$64.1	$136.3	$475.2	$696.0	$2,850.9	$4,549.7	$3,694.9
YOY Growth	-82.0%	-85.6%	1.6%	563.6%	16400.0%	204.9%	309.6%	59.6%	-18.8%
Cost of Sales	$534.5	$100.9	$140.0	$152.8	$303.8	$697.5	$2,105.0	$2,961.3	$1,782.4
Gross Income	($306.2)	($80.4)	($76.0)	($16.5)	$171.4	($1.5)	$745.8	$1,588.3	$1,912.5
Gross Margin	-134.1%	-392.3%	-118.6%	-12.1%	36.1%	-0.2%	26.2%	34.9%	51.8%
R&D	$1,973.4	$631.0	$493.9	$539.0	$682.0	$2,345.9	$3,661.0	$3,844.1	$4,036.3
% R&D	864.4%	3080.2%	771.1%	395.6%	143.5%	337.1%	128.4%	84.5%	109.2%
SG&A	$2,945.0	$678.5	$774.0	$668.0	$729.0	$2,849.5	$4,555.0	$4,873.9	$5,215.0
% SG&A	1290.0%	3311.8%	1208.4%	490.3%	153.4%	409.4%	159.8%	107.1%	141.1%
Operating Income	($5,224.5)	($1,389.9)	($1,343.9)	($1,223.5)	($1,239.6)	($5,196.9)	($7,470.2)	($7,129.6)	($7,338.8)
Operating Margin	-2288.6%	-6784.2%	-2098.1%	-898.0%	-260.9%	-746.7%	-262.0%	-156.7%	-198.6%
Total Other Inc. (Exp.)	$194.7	($10.1)	($8.7)	$4.6	$3.2	($10.9)	$0.0	$0.0	$0.0
Pre-Tax Income	($5,029.8)	($1,399.9)	($1,352.5)	($1,218.9)	($1,236.4)	($5,207.8)	($7,470.2)	($7,129.6)	($7,338.8)
Taxes	$0.8	$0.8	$0.0	$0.0	$0.0	$0.8	$0.0	$0.0	$0.0
Tax Rate	-	-	-	-	-	-	-	-	-
Net Income	($5,030.6)	($1,400.7)	($1,352.5)	($1,218.9)	($1,236.4)	($5,208.6)	($7,470.2)	($7,129.6)	($7,338.8)
YOY Growth	0.1%	-5.7%	22.5%	-0.1%	1.3%	3.5%	43.4%	-4.6%	2.9%
Net Margin	-2203.7%	-6837.2%	-2111.6%	-894.6%	-260.2%	-748.4%	-262.0%	-156.7%	-198.6%
EPS	($3.44)	($0.93)	($0.90)	($0.45)	($0.24)	($1.93)	($1.36)	($1.10)	($1.05)
YOY Growth	-13.7%	-9.2%	18.1%	-46.3%	-70.3%	-44.0%	45.7%	21.9%	131.9%
Diluted Shares O/S	1,462	1,503	1,503	2,696	5,120	2,705	5,500	6,500	7,000

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