Zacks Small-Cap Research

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Resverlogix Corp. (RVX - TSX)

Apabetalone: The Last Mile

Based on our DCF model and a 15% discount rate, RVX is valued at approximately CAD$5.00 per share. Our model applies a 64% probability of apabetalone sales for indications in the BETonMACE trial. Our valuation only includes BETonMACE indication contributions from the US, Europe, & Latin America, as well as royalties from the Hepalink arrangement. It does not recognize potential from renal or orphan indications.

Current Price (11/2/2018)	$3.21
Valuation	**$5.00**

OUTLOOK

Resverlogix Corp. (RVX.TO) began recruiting and dosing participants in the Phase 3 BETonMACE trial of its lead candidate apabetalone (RVX-208) in high-risk CVD patients with diabetes in November 2015. We believe the trial will take approximately 3 years to complete, with expected topline readout in 1H:19. Apabetalone provides a potential impact on multiple markers for CVD we are optimistic on a materially significant impact on MACE.

The company has announced several successful early phase studies in cognition, diabetes mellitus and chronic kidney disease that are supportive of apabetalone's safety profile and point to expanded indications.

At the current price, we view Resverlogix shares as undervalued, and in a position to provide long-term return potential. We see additional upside from the realization of expansion into new geographies, cognitive impairment, the orphan disease program, and renal disease.

SUMMARY DATA

52-Week High	**4.31**
52-Week Low	**1.11**
One-Year Return (%)	**147**
Beta	**1.05**
Average Daily Volume (sh)	**109,017**
Shares Outstanding (mil)	**192**
Market Capitalization ($mil)	**616**
Short Interest Ratio (days)	**5.35**
Institutional Ownership (%)	**0.0**
Insider Ownership (%)	**69.5**
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	**N/A**
P/E using 2019 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 US$)

	Q1 (Jul)	Q2 (Oct)	Q3 (Jan)	Q4 (Apr)	Year (Apr)
2018	$0.0 A	$0.0 A	$0.0 A	$0.0 A	$0.0 A
2019	$0.0 A	$0.0 A	$0.0 A	$0.0 A	$0.0 A
2020					$0.0 E
2021					$14.2 E

Earnings per Share

	Q1 (Jul)	Q2 (Oct)	Q3 (Jan)	Q4 (Apr)	Year (Apr)
2018	-$0.14 A	-$0.10 A	-$0.15 A	-$0.05 A	-$0.42 A
2019	-$0.28 A	-$0.05 A	-$0.05 A	-$0.04 A	-$0.40 A
2020					-$0.24 E
2021					-$0.23 E

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WHAT'S NEW

Capital Raise and Conferences

Following its first quarter fiscal year 2019 financial filings, Resverlogix Corp. (TSX: RVX) has continued to raise capital in preparation for its expected read out for the BETonMACE trial. Results are expected in the first half of calendar year 2019, but are dependent on MACE events which are unpredictable. While we wait, the company has been participating in conferences, including the American Society of Nephrology (ASN) Kidney Week, Clinical Trials on Alzheimer's Disease (CTAD) in October and the American Heart Association (AHA) Scientific Sessions in the second week of November. Posters for the events are available.

First Quarter 2019

An inflow of capital over the last few quarters has allowed Resverlogix to catch up on many of its outstanding payables with sufficient funds remaining to support ongoing trials and operational costs. We see a cash balance in excess of $10 million following the November 2nd private placement and debt of about the same. This advances the company to a strong position for negotiating licensing deals once results from BETonMACE are available.

The company posted its financial statements and management discussion and analysis for the first quarter ending July 31, 2018. No revenues were recognized and a net loss of ($49.5)[1] million or ($0.28) per share was reported. This compares to our estimates of zero revenues and a net loss of ($11.9) million and ($0.07) per share with ($40.3) million of the difference attributable to losses on change in fair value of warrant liability and royalty preferred shares. For operational costs alone, overall expenses were lower than our estimate due to less R&D and G&A expense. Total operational expenses for 1Q:19 were $7.7 million, 14% lower compared to the prior year. 1Q:19 research & development expenses fell 17% while general & administrative expenses increased 14% on a comparable basis with 1Q:18.

As of July 31, 2018, Resverlogix held $5.8 million in cash and $27.9 million in debt. Operating cash burn was ($21.5) million for the quarter or ($7.2) million per month in 1Q:19 rising due to a large cash draw from trade and other payables accounts. Resverlogix also calculates cash burn; relative to our formula it removes changes in non-cash working capital and excludes capital expenditures yielding a ($2.5) million average monthly burn rate for the fiscal year. The majority of the difference between the two calculation methodologies was the $13.8 million draw from trade and other payables and other non-cash working capital.

Resverlogix has been able to dramatically improve its cash profile over the last several months as share price improves due to optimism over a readout from the BETonMACE trial in the first half of calendar 2019. The company has been successful obtaining additional financing with several private equity placements and debt issuance. Following the end of the first quarter, Resverlogix raised an additional USD$30.3 million from private placements. We believe that this will be sufficient cash to cover operations until the topline readout from BETonMACE is available, especially in light of our forecasts that anticipate a decline in R&D spend as BETonMACE concludes.

U.S. Listing

Resverlogix is seeking a listing on a U.S. exchange. To obtain this listing, the company's shares will need to trade at a higher price to conform to exchange rules. For example, the NASDAQ requires shares to trade above $2.00 if the market value of the company is greater than $50 million. Other considerations the company may contemplate include institutional investors' constraints that limit screening in an investible universe with shares that trade above $5.00, which may require a reverse split. While in some cases reverse splits are seen as a negative, when they are undertaken to qualify for a listing on a U.S. exchange, the perception is more favorable. A listing in the U.S. will help expand the investor base and give additional prestige to the listed company. Many times there is a perception that higher quality companies trade on a specific exchange due to required accounting and reporting standards.

To assist with the listing process, Resverlogix has engaged Rothschild & Company as an advisor. We anticipate that management will provide additional details on the path forward in coming months.

[1] Note that financial statements are prepared in US Dollars and our commentary on revenues expenses and earnings is also in US Dollars, while our target price is in Canadian Dollars.

Additional Capital

On November 2nd, Resverlogix closed a CAD$13.5 million (US$10.3 million) placement at a share price of $3.00. This is equivalent to 4.5 million shares and includes an additional 2.25 million warrants at an exercise price of $3.10. The warrants have a duration of three years and require a four month holding period.

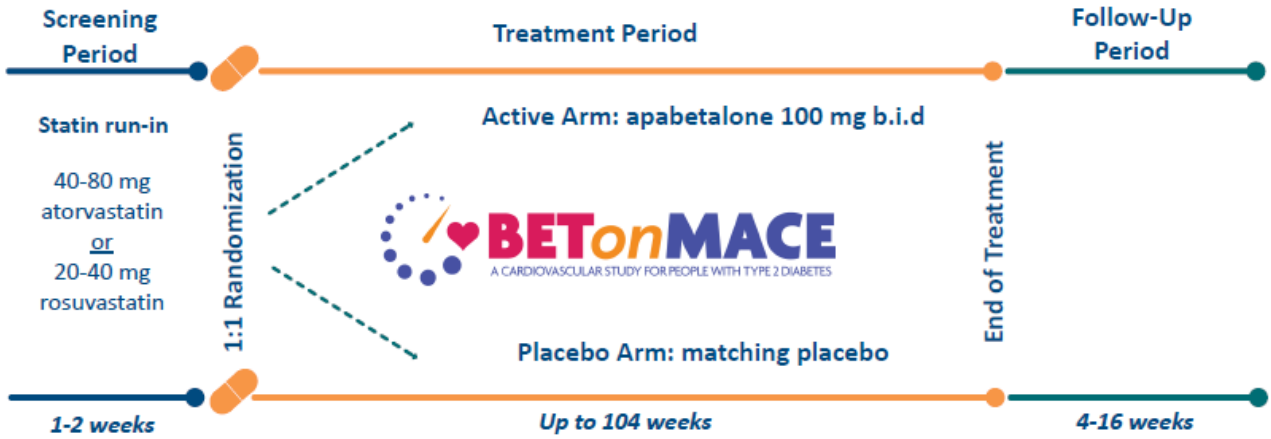
On August 30th, Resverlogix announced the close of a private placement raising CAD$26 million (US$20 million). 10.4 million shares were issued at a price of $2.50 with an additional 5.2 million warrants. Warrants are exercisable at $3.10, have a three year life and are subject to a four month hold.

BETonMACE Status

The BETonMACE trial has been fully enrolled since February 2018 and additional enrollment was allowed at Chinese sites to allow for additional flexibility with regulatory authorities. Enrollment in China continued until June. More than 1,900 patients have been dosed in all apabetalone trials with seven Data and Safety Monitoring Board (DSMB) meetings all recommending that the trial continue as designed. No safety or efficacy concerns were raised in the reviews. There will be one additional DSMB meeting before the trial is concluded.

The BETonMACE trial had originally intended to run until 250 major adverse cardiovascular events occurred. However, the events have occurred at a slower pace than that indicated by historical event rates in this population, delaying the 250 event milestone by a few months. This may be a favorable result for the apabetalone arm in the trial or it could be a healthier population overall contributing to the slower death rate. We anticipate complete enrollment by year end assuming historical event rates continue. Resverlogix has also decided to continue dosing until 250 events have occurred, which suggests that there could be ~270 events when the trial closes, improving the statistical powering in comparison with the original protocol. These historical numbers suggest that the trial can begin the adjudication process around the beginning of the year. While clinical events are independently assessed over an anticipated two month period, additional events will be added providing a topline readout around March 2019.

Exhibit I – BETonMACE Trial Design



Key Events

During fiscal year 2018 Resverlogix has experienced several milestones and anticipates several more in the coming year. Below we summarize the key events over these periods for the company.

- July 25, 2017 – Type C Response from FDA regarding BETonMACE study protocol
- January 11, 2018 – FDA accepted protocol amendments and US trial sites added
- FY:18/FY:19 - Multiple DSMB safety reviews recommending continuation of trial
- March 19, 2018 – BETonMACE 2,400 patient target exceeded
- May 7, 2018 – Close of USD$30 MM loan from Third Eye Capital
- June 14, 2018 – FDA confirms that BETonMACE trial qualifies for NDA if successful
- August 25, 2018 – Epigenetics Satellite Symposium Presentations
- August 30, 2018 – CAD$26 million private placement
- September 12, 2018 – Annual Meeting of Shareholders
- October/November 2018 – Participation in various Kidney, AD and cardiovascular conferences
- November 2, 2018 – CAD$13.5 million private placement
- 1H:19 (Calendar year) – Topline readout from BETonMACE
- 2H:19 (Calendar year) – New Drug Application with major regulatory agencies

Summary

We are in the final stretch for Resverlogix's Phase III BETonMACE trial and should achieve the target event rate around the turn of the year. To increase the power of the trial, Resverlogix will allow BETonMACE run a couple months longer after 250 events occur. The company will also skip the sample size re-estimation analysis, which will remove a statistical penalty and improve p-values. While the trial will take several months longer than originally anticipated, we see this as a risk reduction technique that is well worth the additional time investment. Now that there is clarity on events and trial conclusion, we anticipate interest will increase in the stock as we close on the read out date.

Our investment thesis on Resverlogix emphasizes the opportunity related to the size of the population impacted by cardiovascular disease (CVD) and the high degree of efficacy and evidence of safety shown so far in clinical investigations. There are additional opportunities in diabetes, chronic kidney disease and importantly Alzheimer's Disease. Resverlogix's lead compound has shown promise in addressing many of the key biomarkers underlying CVD and other related diseases and potentially has applications in other therapeutic areas.

We updated our model for 1Q:19 actuals and the issuance of additional shares and warrants following the end of the reporting period. There was no net impact on our target valuation with the read out of BETonMACE being the next anticipated catalyst driving our numbers. R&D expenses are forecast to fall in FY:19 vs. FY:18 reflecting the end of the enrollment phase of the study and G&A is expected to see a slight rise. We anticipate additional capital raises or access to non-dilutive capital through partnerships that will continue to fund operations until Resverlogix can submit its Phase III data to the FDA and other regulatory authorities in what we expect to be in the Autumn of 2019.

We believe that a durable patent position, a competence in CVD and diabetes and a novel approach to addressing the residual risk in high need CVD patients combined with our forecasted pricing of apabetalone support Zacks' price target. At current levels, there is substantial upside based on our targets. We maintain our price target at CAD$5.00 per share.

PROJECTED FINANCIALS

Resverlogix Corp. - Income Statement

Resverlogix Corp. (millions of $US)	Apr. 2018 FY-18 A	Jul. 2018 Q1 A	Oct. 2018 Q2 E	Jan. 2019 Q3 E	Apr. 2019 Q4 E	Apr. 2019 FY-19 E	Apr. 2020 FY-20 E	Apr. 2021 FY-21 E
RVX-208	$0	$0	$0	$0	$0	$0	$0	$14.2
Licensing & Collaborative	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-	-	-
Total Revenues	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
CoGS	$0	$0	$0	$0	$0	$0	$0	$0
Product Gross Margin	-					-	-	-
R&D Expense (net)	$37.8	$6.7	$7.0	$7.0	$6.0	$26.7	$30.0	$30.0
G&A Expense	$4.1	$1.0	$1.1	$1.1	$1.1	$4.3	$7.0	$7.0
Operating Income	($41.9)	($7.7)	($8.1)	($8.1)	($7.1)	($31.0)	($37.0)	($37.0)
Operating Margin	-					-	-	-
Net Finance Activities	($16.4)	($41.8)	($0.8)	($0.8)	($0.8)	($44.1)	($8.8)	($8.8)
Other Gain / (Loss)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	($58.3)	($49.5)	($8.9)	($8.9)	($7.9)	($75.0)	($45.8)	($45.8)
Taxes & Other	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	($58.3)	($49.5)	($8.9)	($8.9)	($7.9)	($75.1)	($45.8)	($45.8)
Reported EPS	**($0.42)**	**($0.28)**	**($0.05)**	**($0.05)**	**($0.04)**	**($0.40)**	**($0.24)**	**($0.23)**
YOY Growth	-					-	-	-
Diluted Shares Outstanding	137.7	177.3	187.0	192.5	193.0	187.4	190.0	195.0

Source: Company Filing // Zacks Investmer

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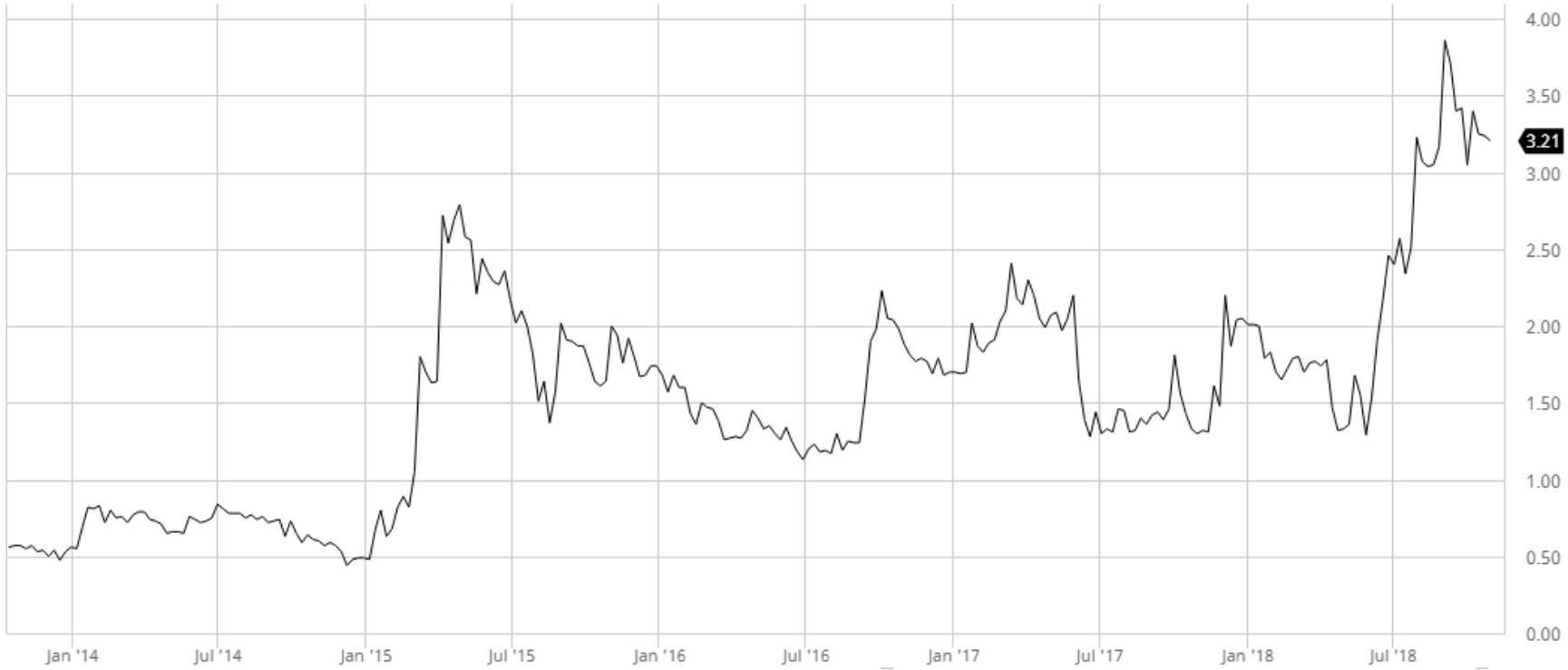
HISTORICAL STOCK PRICE

Resverlogix, Corp. – Five Year Price Chart[2]



[2] Chart provided courtesy of barchart.com

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