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ContraFect Corp. (CFRX-NASDAQ)

CFRX: Waiting on Data from Phase 2 Study 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 $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 (11/12/18)	$2.19
Valuation	**$6.00**

OUTLOOK

ContraFect Corp. (CFRX) is currently conducting a Phase 2 clinical trial of CF-301 (exebacase) in patients with bacteremia caused by *Staphylococcus aureus*. The company recently announced that enrollment has completed, and we continue to anticipate topline results in the fourth quarter of 2018.

The company recently presented data at ID Week 2018 on the *in vitro* activity of CF-301 against both methicillin sensitive (MSSA) and methicillin resistant (MRSA) *Staphylococcus aureus* isolates from patients enrolled in the ongoing Phase 2 clinical trial compared to recently reported MIC values for CF-301 in a global surveillance study. The results showed that CF-301 activity to clinical isolates was similar to what was seen in the global surveillance study.

SUMMARY DATA

52-Week High	**$2.82**
52-Week Low	**$0.89**
One-Year Return (%)	**114.71**
Beta	**-0.37**
Average Daily Volume (sh)	**173,115**
Shares Outstanding (mil)	**79**
Market Capitalization ($mil)	**$174**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**54**
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 Ag.**
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	-$0.26 A	-$0.27 A	-$0.06 A	-$0.09 E	-$0.67 E
2019					-$0.36 E
2020					-$0.37 E

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WHAT'S NEW

Business Update

Phase 2 Trial of CF-301 Fully Enrolled

In September 2018, ContraFect Corp. (CFRX) announced that the Phase 2 trial of CF-301 (exebacase) is fully enrolled. CF-301 is the company's lead lysin product candidate being tested for the treatment of bacteremia, including those with endocarditis, 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 was expected to enroll approximately 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. There have been no reports of any serious adverse events thus far that are related to study drug. We anticipate topline results in the fourth quarter of 2018.

CF-301 Activity Against Clinical Isolates

In October 2018, ContraFect presented data at ID Week 2018 on CF-301 activity against clinical isolates from bacteremia patients enrolled in the ongoing Phase 2 study compared to what was seen in a previously reported global surveillance study. Baseline isolates from blood cultures were obtained prior to administration of CF-301. A total of 82 baseline isolates of MSSA (n=53) and MRSA (n=29) were tested against CF-301. The surveillance data was generated against 556 MSSA and MRSA isolates collected from 2015-2017 in the U.S., Greece, Hungary, Italy, Chile, and Columbia. The following tables show the frequency distribution of minimum inhibitory concentration (MIC) values for clinical isolates from the ongoing Phase 2 trial of CF-301 (Table 1) and the global surveillance study (Table 2). The results show that there are a similar range of MIC values for each of the isolate groups. Importantly, no clinical isolate had a MIC value greater than 2 μg/mL. This is important because based on preclinical data and PK/PD modeling it is anticipated that strains with MIC values ≤ 2 μg/mL will be susceptible to the CF-301 dose being utilized in the Phase 2 clinical trial (0.25 mg/kg).

Table 1. Cumulative frequency distribution of CF-301 MICs for Ph 2 clinical bacteremia and endocarditis isolates

Organism	Number of isolates	No. of isolates inhibited by CF-301 MIC (μg/mL) of:							MIC_{50} (μg/mL)	MIC_{90} (μg/mL)
		0.0625	0.125	0.25	0.5	1	2	4		
MSSA	53		2	12	26	13			0.5	1
MRSA	29			3	19	5	2		0.5	1

Table 2. Cumulative frequency distribution of CF-301 MICs from a surveillance study of clinical *S. aureus* isolates (collected from 2015-2018)

Organism	Number of isolates	No. of isolates inhibited by CF-301 MIC (μg/mL) of:							MIC_{50} (μg/mL)	MIC_{90} (μg/mL)
		0.0625	0.125	0.25	0.5	1	2	4		
MSSA	274			9	178	86	1		0.5	1
MRSA	282			17	166	95	4		0.5	1

Source: Anastasiou *et al.*, 2018

Financial Update

On November 8, 2018, ContraFect announced financial results for the third quarter of 2018. As expected, the company did not report any revenues for the quarter. Net loss for the third quarter of 2018 was $4.8 million, or $0.06 per share, compared to a net loss of $1.6 million, or $0.02 per share, for the third quarter of 2017. The increase in net loss was primarily due to a $0.05 per share decrease in the non-cash gain for the change in fair value of warrant liabilities. R&D expenses for the third quarter of 2018 were $5.7 million compared to $4.9 million for the third quarter of 2017. The increase was primarily due to increased laboratory costs, external research services, and professional fees. G&A expenses for the third quarter of 2018 were $2.1 million compared to $1.8 million for the third quarter of

2017. The increase was due to intellectual property costs, including patent filing, prosecution, and maintenance fees.

As of September 30, 2018, ContraFect had cash, cash equivalents, and marketable securities of $37.6 million. We anticipate the company currently has sufficient capital to fund operations into the first quarter of 2020. As of November 8, 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 117.9 million.

Conclusion

We're anxiously awaiting the results of the Phase 2 trial of CF-301 and based upon the *in vitro* and *in vivo* data that the company has presented at various conferences over the past couple of years, we are confident that the trial will be a success. Positive results will be transformative for the company, as it will not only validate the potential for CF-301 in bacteremia, but will also validate the entire lysin platform. Our valuation currently stands at $6.

PROJECTED FINANCIALS

ContraFect Corp.	2017 A	Q1 A	Q2 A	Q3 A	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	$5.7	$4.9	$20.6	$19.5	$20.0
General & Administrative	$9.2	$2.2	$2.2	$2.1	$2.4	$9.0	$10.0	$10.5
Other Expenses	$0	$0	$0	$0	$0	$0	$0	$0
Operating Income	($26.6)	($7.0)	($7.5)	($7.8)	($7.3)	($29.6)	($29.5)	($30.5)
Operating Margin		-	-	-	-			
Non-Operating Expenses (Net)	$11.0	($12.1)	($12.6)	$3.4	$0.0	($21.3)	($0.4)	($0.4)
Pre-Tax Income	($15.5)	($19.1)	($20.1)	($4.4)	($7.3)	($50.9)	($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)**	**($4.4)**	**($7.3)**	**($50.9)**	**($29.9)**	**($30.9)**
Net Margin		-	-	-	-			
Reported EPS	**($0.28)**	**($0.26)**	**($0.27)**	**($0.06)**	**($0.09)**	**($0.67)**	**($0.36)**	**($0.37)**
YOY Growth		-	-	-	-			
Basic Shares Outstanding	55.6	73.7	73.7	77.4	79.5	76.1	82.0	84.0

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

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