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Zacks Small-Cap Research

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Wize Pharma Inc (WIZP-OTC)

WIZP: Executing on strategy

We value WIZP at $2.93/share based on an NPV for LO2A for Sjögren's Syndrome and conjunctivochalasis (CCH) in the US. Our model assumes that WIZP carries all R&D costs through approval (estimated at $22 million) and out-licenses the product to another company that will handle sales and marketing and pay a 20% royalty on sales to WIZP.

Current Price (05/17/19)	$0.58
Valuation	**$2.93**

OUTLOOK

Wize Pharma, Inc. is seeking FDA approval for LO2A, a proprietary formulation of artificial tears for the treatment of Sjögren's and conjunctivochalasis (CCH) in dry eye syndrome. While the competitive landscape is significant, we believe the company will carve out a modest share of the US market based on LO2A's approval for DES, Sjögren's and CCH in four European nations if it receives FDA approval. Risks to our hypothesis center on the Company's ability to obtain financing to complete its clinical trials and FDA approval specifically for CCH and Sjögren's – which will differentiate the product in the US market.

SUMMARY DATA

52-Week High	**$1.17**
52-Week Low	**$0.54**
One-Year Return (%)	**N/A**
Beta	**N/A**
Average Daily Volume (sh)	**119,300**
Shares Outstanding (mil)	**10**
Market Capitalization ($mil)	**$6**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**N/A**
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 2019 Estimate	**-1.3**
P/E using 2020 Estimate	**-0.9**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**N/A**
Industry	**Spec pharma**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2018	0.0 A	0.0 A	0.0 A	0.0 A	0.0 A
2019	0.0 A				0.0 E
2020					0.0 E
2021					0.0 E

Earnings per share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2018	-$0.02 A	-$0.17 A	-$0.10 A	-$0.32 A	-$0.61 A
2019	$0.00 A				-$0.43 E
2020					-$0.67 E
2021					-$0.90 E

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

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COMPANY UPDATE

On May 15, WIZP posted first quarter results in line with expectations. Net income improved to $0.15 million from a loss of $0.1 million in the year-earlier period, primarily on a reduction in R&D spend related to lower minimum payments under its LO2A license obligation to Resdevco (the patent holder). General and administrative expense increased to $0.5 million from $0.3 million in the year-earlier period driven primarily by higher stock compensation, marketing and investor relations expense. Net financial income increased to $0.74 million versus $0.41 million in Q118 due to higher amortization of premiums related to convertible loans. Cash used in operating activities increased to $0.7 million, compared with $0.5 million primarily from the $0.77 million in amortization of premiums related to the Company's convertible loan.

Investors should note that 4.45 million Series B warrants are likely to go unexercised when they expire on or about May 19, 2019 (20 days after phase II results are released), unless the Company's share price rises to over $1.00. The expiration of these warrants reduced dilution potential by 33%.

We are maintaining our estimates and our valuation target of $2.93 per share.

INVESTMENT SUMMARY

Company Description: Wize Pharma, Inc. is a clinical-stage company focused on developing an in-licensed product, for the treatment of dry eye syndrome (DES) and related conditions including Sjögren's syndrome and conjunctivochalasis (CCH). LO2A is approved and marketed by its inventor in several European nations, with over 1.5 million packages sold in 2018. Wize has the rights to develop LO2A for the US, China, Israel and the option to license the rights for additional markets, including those where LO2A is currently sold. On April 29, Wize released full results for its phase II trial of LO2A in patients with moderate-to-severe CCH. The trial met its primary endpoint of diminishing objective parameters of corneal damage with a strong trend towards statistical significance in a key clinical measure. Wize is also conducting a phase IV study of LO2A in patients with Sjögren's Syndrome. The Company intends to submit these studies to the US FDA in order to discuss the clinical approval pathway. We expect progress towards US FDA approval will be the primary catalyst for share price improvement during the next two years.

Valuation: Our value for WIZP of $2.93/share is based on an NPV for LO2A for Sjögren's Syndrome and CCH in the US. Our model assumes that WIZP carries all the R&D costs through approval (estimated $18 million) and then out-licenses the product to another company that will handle sales and marketing and pay a 20% royalty on sales to WIZP. We've taken a conservative approach and used peak net debt of $26 million in our valuation to reflect the cost of funding the business until anticipated approval in 2023. Several factors provide upside to our valuation including: pre-approval partnership that provides milestones and/or R&D cost sharing; a faster, or less-costly path to US approval; and the potential for LO2A sales in other geographies (such as China) and development/sales of other products (such as the recently-announced partnership with Cannabics Pharmaceuticals, Inc. (CNBX-OTC) to explore and develop cannabinoid formulations to treat ophthalmic conditions.

Financials: On April 1, 2018, Wize Pharma reported results for 2018. Net loss totaled $3.6 million, compared with $2.7 million in 2017. Our model is based solely on LO2A and the US market. The Company's current burn rate is $150,000-$200,000 per month; however, that rate will increase once Phase III trials commence. We expect the Company will need $22 million of additional funds to get LO2A through the approval process with the highest cash outflow in 2022 based on costs for the Phase III trial and those associated with a commercial launch.

In 2023, we forecast product sales of $65 million, based on a 0.5% share of both the SS and CCH markets in the US. At a 20% royalty rate, these assumptions translate into $13 million to WIZP's top line. Our long-term operating margin is 90% based on royalty revenues and before corporate overhead.

Sensitivities: Wize Pharma has several competitive advantages in its drug candidate, LO2A, notably existing approval overseas, a long history of safety and significant market share in Switzerland (the first approved market). Regarding Wize Pharma and the US market opportunity, there are a number of complexities that may affect the actual outcome and our estimates, most notably financing and partnership risk as well as what we expect will be a highly competitive market for LO2A based on an active development pipeline.

Exhibit 1: Financial summary

INCOME STATEMENT								
Fiscal year	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E
Revenue	0	0	0	0	0	0	0	12,913
Cost of sales including payaways	0	0	0	0	0	0	0	(1,291)
Gross Profit	0	0	0	0	0	0	0	11,621
Research & development	(240)	(450)	(694)	(1,050)	(3,150)	(5,000)	(10,000)	(3,000)
Selling, general & administrative	(794)	(1,031)	(2,936)	(3,083)	(3,237)	(3,399)	(3,569)	(3,747)
Operating profit (EBIT)	(1,034)	(1,481)	(3,630)	(4,133)	(6,387)	(8,399)	(13,569)	4,874
Interest income	76	0	2,149	0	0	0	0	0
Interest expense	(181)	(1,485)	(1,798)	(285)	(480)	(807)	(1,513)	(1,602)
Other expense	0	(50)	(365)	0	0	0	0	0
Pretax profit	(1,139)	(2,966)	(3,279)	(4,418)	(6,867)	(9,206)	(15,082)	3,273
Taxes	0	0	0	0	0	0	0	0
Net income (common shareholders)	(1,139)	(2,969)	(3,571)	(4,418)	(6,867)	(9,206)	(15,082)	3,273
Basic shares outstanding	3,023	3,439	5,649	10,230	10,230	10,230	10,230	10,230
Diluted shares outstanding	3,023	3,439	5,649	10,230	10,230	10,230	10,230	10,230
Basic EPS	**($0.38)**	**($0.86)**	**($0.61)**	**($0.43)**	**($0.67)**	**($0.90)**	**($1.47)**	**$0.32**
Diluted EPS	**($0.38)**	**($0.86)**	**($0.61)**	**($0.43)**	**($0.67)**	**($0.90)**	**($1.47)**	**$0.32**
Growth rates & margins								
Revenue growth	NA	NA	NA	NA	NA	NA	NA	NA
Gross profit as % of sales	NA	NA	NA	NA	NA	NA	NA	90%
R&D margin	NA	NA	NA	NA	NA	NA	NA	23%
SG&A margin	NA	NA	NA	NA	NA	NA	NA	29%
Tax rate	NA	NA	NA	0%	0%	0%	0%	0%
EBITDA reconciliation								
Depreciation & amortization	0	1	2	4	4	4	5	5
Stock based compensation	65	19	1,343	1,446	1,916	2,100	2,714	2,699
EBITDA	(969)	(1,461)	(2,285)	(2,682)	(4,467)	(6,295)	(10,850)	7,578

BALANCE SHEET							
Fiscal year	2017A	2018A	2019E	2020E	2021E	2022E	2023E
Cash & equivalents	550	3,215	3,542	2,087	804	967	2,225
Total current assets	**590**	**3,395**	**3,722**	**2,267**	**984**	**1,147**	**4,988**
Property plant and equipment	5	8	9	10	10	11	11
Total Assets	**595**	**3,403**	**3,732**	**2,277**	**995**	**1,157**	**4,999**
Accounts payable	43	34	36	37	39	41	0
Accrued liabilities	446	522	536	550	565	581	(3,110)
Total current liabilities	**489**	**556**	**571**	**587**	**604**	**622**	**(3,110)**
Long-term debt	3,204	2,635	5,920	9,400	15,207	27,721	29,322
Total liabilities	**3,693**	**3,191**	**6,491**	**9,988**	**15,812**	**28,343**	**26,213**
Common stock / additional paid in capital	23,401	30,282	31,728	33,645	35,744	38,458	41,157
Treasury stock	0	0	0	0	0	0	0
Retained earnings / accumulated deficit	(26,452)	(29,997)	(34,415)	(41,283)	(50,488)	(65,570)	(62,298)
Other comprehensive income / (loss)	(47)	(73)	(73)	(73)	(73)	(73)	(73)
Total equity	**(3,098)**	**212**	**(2,760)**	**(7,711)**	**(14,817)**	**(27,185)**	**(21,214)**
Total liabilities and equity	**595**	**3,403**	**3,732**	**2,277**	**995**	**1,157**	**4,999**

CASH FLOW STATEMENT							
Fiscal year	2017A	2018A	2019E	2020E	2021E	2022E	2023E
Cash from operating activities		**(2,208)**	**(2,668)**	**(4,451)**	**(6,278)**	**(10,833)**	**1,264**
Capital expenditures		(5)	(5)	(5)	(5)	(5)	(5)
Proceeds from sale of marketable sec.		258	0	0	0	0	0
Cash from investing activities		**253**	**(5)**	**(5)**	**(5)**	**(5)**	**(5)**
Cash from financing activities		**4,910**	**3,000**	**3,000**	**5,000**	**11,000**	**0**
Net change in cash during period		**2,956**	**327**	**(1,456)**	**(1,283)**	**162**	**1,259**

Source: Company filings. Zacks Investment Research estimates

HISTORICAL STOCK PRICE



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