Zacks Small-Cap Research

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Resverlogix Corp. (RVX - TSX)

Targeting September Readout for BETonMACE

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 (8/2/2019)	$2.91
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. In April, BETonMACE reached its targeted number of events and completed final safety visits in July. This timeline sets RVX up for a late 2019+ top line report and publication in conjunction with appropriate CKD, CVD and cognitive conferences. RVX has outlined remaining steps required to prepare an NDA, which we anticipate will be submitted in 2020.

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	**4.94**
52-Week Low	**2.62**
One-Year Return (%)	**-8.8**
Beta	**0.67**
Average Daily Volume (sh)	**114,532**
Shares Outstanding (mil)	**204**
Market Capitalization ($mil)	**594**
Short Interest Ratio (days)	**6.3**
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 2020 Estimate	**N/A**
P/E using 2021 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	-$0.21 A	-$0.07 A	-$0.31 E	-$0.87 E
2020					-$0.22 E
2021					-$0.22 E

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WHAT'S NEW

Fiscal Year 2019 Results

Resverlogix Corp (TSX: RVX) provided an update of the financial and operational results for its 2019 fiscal year which covers the May 1, 2018 to April 30, 2019 period. During the year, the company raised additional funds using private placements and debt, received three additional positive DSMB recommendations, was published in a variety of journals and advanced apabetalone in a number of additional indications including HIV and pulmonary arterial hypertension (PAH). The company also participated in numerous several scientific and investor conferences. Management announced that the targeted 250 events for the BETonMACE trial had been achieved in April 2019 and that final safety visits had been completed in July. The company also disclosed additional required items necessary to publish top line results by September.

On July 29, 2019, Resverlogix filed its financial statements with SEDAR outlining its financial results and providing management commentary for the 2019 fiscal year. Operating expenses for 2019 were $38.7[1] million, a 7% decline over the prior year. The total was comprised of $32.2 million in research and development expense and $6.5 million of general and administrative expense. The 15% decline in R&D from 2018 levels was attributable to lower clinical costs as the BETonMACE enters its final stages. G&A increased by 60% in 2019 on account of higher share based payment transaction costs. No revenues were reported.

Net finance costs in the third quarter were $130.0 million. The vast majority of the total was comprised of a $41.2 million loss in fair value of the warrant liability and an $83.4 million loss in fair value of royalty preferred shares, both on account of favorable share price movements during the measurement period. Interest and accretion totaled $5.0 million while financing costs were $674 thousand partially offset by a small foreign exchange gain of ($173) thousand. Net loss for the year was ($162.8) million or ($0.87) per share. Eliminating finance costs, 2019 net loss would have been ($32.8) million or ($0.17) per share.

Cash and equivalents stood at $7.7 million as of April 30, 2019 while debt and notes were carried at $14.8 million. Operating cash burn was ($48.8) million for the year or ($4.1) million per month in 2019 compared to ($25.7) million for 2018 or ($2.1) million per month. Resverlogix also calculates cash burn; relative to our formula it removes changes in non-cash working capital and excludes capital expenditures yielding ($28.4) million for 2019 and ($2.4) million on a monthly basis.

Following the end of the reporting period, Resverlogix closed a CAD$15.2 million ($11.6 million USD) equity offering marketed by Bloom Burton and HC Wainwright on June 7th, 2019. The company also amended its loan agreement with Third Eye Capital, extending it by six weeks and paying down a portion of the amount. The remaining principal balance of the loan is US$11.5 million.

BETonMACE Status

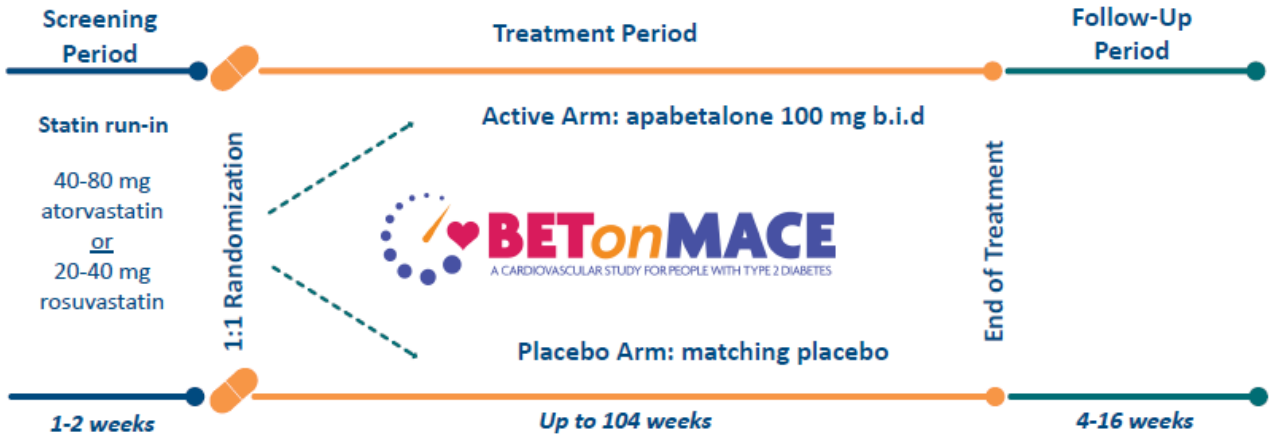
Resverlogix had a busy year in fiscal 2019 as the BETonMACE trial reached its final stages. The company announced that the 250th patient event had occurred in April and that the final safety visit was completed in July. Numerous scientific conferences were attended where presentations were given including the Clinical Trials in Alzheimer's Disease (CTAD) Asia conference, the Alzheimer's Association International Conference (AAIC) and the European Society of Cardiology Congress among others. The year also saw progress with the FDA as the agency indicated a favorable view on the BETonMACE statistical analysis plan and endpoints proposed by the company.

BETonMACE has enrolled and dosed 2,425 patients with nine positive Data and Safety Monitoring Board (DSMB) meetings completed, all of which recommended that the trial continue as designed. The latest DSMB review was completed in March with no safety or efficacy concerns raised in any of the reviews.

The BETonMACE trial had originally intended to run until 250 major adverse cardiovascular events occurred. While the event occurrence rate had been slower than expected, this may be interpreted as a favorable result for the apabetalone arm in the trial or it could be a healthier population overall contributing to the slower death rate.

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

Exhibit I – BETonMACE Trial Design



On April 18th Resverlogix announced that the BETonMACE trial had achieved the target of 250 MACE events and on July 8th disclosed that the trial had completed its final safety visits. In order to improve the statistical power of the trial, Resverlogix decided to continue dosing until 250 events occurred, suggesting that there could be ~270 events when the database locks. The company provided details regarding the subsequent steps that are anticipated as the data is compiled and presented to investors and the scientific community. Below we include the projected timeline:

- Third party adjudication of remaining MACE events
  - Additional MACE events (>250) that accumulate during this period will be added to the results while not hindering the trial's advance towards database lock
- Database lock (DBL) will occur after all queries[2] are resolved
- ~2 weeks after DBL, topline results are expected to be announced
- Late 2019 and beyond will see full outcomes, pre-specified endpoint data, safety results and clinical implications to be reported and published
- Presentation at American Heart Association (AHA) Scientific Sessions, November 2019

Development Pipeline

Exhibit II – Resverlogix Clinical Development Pipeline

Apabetalone Indication	Pre-clinical	Phase 1	Phase 2 Ready	Phase 3	Status Est.
Acute Coronary Syndrome (ACS) - BETonMACE					Initiation: 2015 Trial completion estimate: H1 2019
Vascular Cognitive Dementia*	19% of BETonMACE participants in VCD subgroup				Initiation: H2 2019
Chronic Kidney Disease*	11% of BETonMACE participants in CKD subgroup				Initiation: H2 2019
Fabry disease					Initiation: H2 2019
Pulmonary Arterial Hypertension					Initiation: H2 2019

[2] Examples of queries include confirmation of last dose date or acquiring case notes from treating hospital when MACE events happen elsewhere.

Key Events

During fiscal year 2019 Resverlogix has achieved numerous milestones and anticipates new ones in the coming year. Below we summarize the key events over these periods for the company.

- May 7, 2018 – Close of USD$30 MM loan from Third Eye Capital
- June 14, 2018 – FDA Confirmation for Apabetalone Filing Pathway
- 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
- March 2019 – Ninth positive DSMB recommendation
- April 1, 2019 – CAD$15.1 private placement
- April 2019 – Final event in the BETonMACE trial
- June 7, 2019 – Closing of CAD$15.2 million offering
- July 8, 2019 – Completion of final safety visits
- 2H:19 – PAH trial launch
- September 2019 – Announcement of topline results
- November 2019 – Presentation of cardiovascular data at AHA conference
- FY:20 – New Drug Application with major regulatory agencies

Summary

Resverlogix is in the final stages of its Phase III BETonMACE trial and recently achieved its target 250 events. We anticipate that there will be 5-10% additional events over target that will be included in the statistical analysis by the time the database is locked. The company has provided detail on the steps required to complete the trial and present topline data, which includes the standard operational procedures for wrapping up the trial. Following the presentation of data, we anticipate participation in major conferences for cardiovascular (AHA), neurodegenerative (CTAD) and nephrology specialties along with concurrent publication of papers and posters to support the analysis and conclusions.

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 Alzheimer's Disease which provide additional value. 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 have updated our model to reflect FY:19 results and the issuance of additional shares and warrants. 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.

We believe that a durable patent position, 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 forecasts and discounted cash flow model. 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 A	Jan. 2019 Q3 A	Apr. 2019 Q4 A	Apr. 2019 FY-19 A	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	$8.9	$7.8	$8.9	$32.2	$30.0	$30.0
G&A Expense	$4.1	$1.0	$2.0	$1.6	$1.9	$6.5	$7.0	$7.0
Operating Income	($41.9)	($7.7)	($10.9)	($9.4)	($10.8)	($38.7)	($37.0)	($37.0)
Operating Margin	-					-	-	-
Net Finance Activities	($16.4)	($41.8)	($28.3)	($4.0)	($55.9)	($130.0)	($8.8)	($8.8)
Other Gain / (Loss)	$0.0	$0.0	$0.0	$0.0	$6.0	$6.0	$0.0	$0.0
Pre-Tax Income	($58.3)	($49.5)	($39.2)	($13.4)	($60.7)	($162.8)	($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)	($39.2)	($13.4)	($60.7)	($162.8)	($45.8)	($45.8)
Reported EPS	**($0.42)**	**($0.28)**	**($0.21)**	**($0.07)**	**($0.31)**	**($0.87)**	**($0.22)**	**($0.22)**
YOY Growth	-					-	-	-
Diluted Shares Outstanding	137.7	177.3	185.2	193.0	197.0	188.1	206.0	212.0

Source: Company Filing // Zacks Investmer

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HISTORICAL STOCK PRICE

Resverlogix, Corp. – Three Year Price Chart[3]



[3] Chart provided courtesy of barchart.com

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