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Zacks Small-Cap Research

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EyeGate Pharmaceuticals (EYEG-NASDAQ)

Looking ahead to 2020

We are adjusting our valuation target to reflect the 15-1 split along with slightly more moderate uptake assumptions related to the economic slowdown. Our valuation goes from $2.25 (pre-split) to $12.00 based on a 10-year DCF for PRK and dry eye markets with 20% royalties, 10% discount rate, 20% terminal EBIT margin, 25% tax rate and $8.2 million in net cash.

OUTLOOK

EyeGate Pharmaceuticals is a late-stage clinical company developing better solutions to current treatments for post-surgical eye care and moderate to severe dry eye using OBG, its proprietary cross-linked formulation of sodium hyaluronate (HA). The Company is preparing its IND filing for OBG as an alternative to a bandage contact lens following PRK surgery. EYEG is completing a follow-on pilot study for OBG in punctate epitheliopathies (PE), a condition arising from dry eye and other forms of eye irritation.

Current Price (05/05/20)	$5.04
Valuation	**$12.00**

SUMMARY DATA

52-Week High	**$12.20**
52-Week Low	**$2.40**
One-Year Return (%)	**25.59**
Beta	**1.70**
Average Daily Volume (sh)	**41,236**
Shares Outstanding (mil)	**5**
Market Capitalization ($mil)	**$23**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**48**
Insider Ownership (%)	**48**
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	**-1.9**
P/E using 2021 Estimate	**-3.1**
Zacks Rank	**N/A**

Risk Level	**Average,**
Type of Stock	**Small-Blend**
Industry	**Med-Drugs**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2018	1.1 A	0.2 A	0.3 A	0.1 A	1.7 A
2019	2.7 A	0.0 A	0.0 A	0.0 A	2.7 A
2020					0.1 E
2021					8.0 E

Earnings per share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2018	-$2.10 A	-$1.05 A	-$1.05 A	-$0.75 A	-$4.50 A
2019	$0.15 A	-$0.60 A	-$1.15 A	-$0.76 A	-$2.23 A
2020					-$2.67 E
2021					-$1.63 E

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

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COMPANY UPDATE

2019 was a turning point for EyeGate Pharmaceuticals. In March, 2019, the Company announced it was putting work on hold for EGP-437, a candidate being studied for uveitis and two other indications. Since, then the Company focused all its efforts on its OBG (Ocular Bandage Gel) platform technology.

The focus is paying off. The Company has completed four clinical trials for OBG, three for PRK and one for PE (punctate epitheliopathies) and anticipates filing for FDA approval in PRK in 2020 and perhaps the PE indication as well.

EyeGate filed its IDE for OBG in PRK in May 2019 and began its pivotal trial in June. In November and December, the Company received top-line data showing superiority in its primary endpoint of superiority in wound healing over standard-of-care a bandage contact lens (BCL). In the study, by day 3, 80% of study eyes receiving OBG were completely healed, compared with 67% in the control group. EyeGate plans to file a *de novo* application for OBG in PRK by the end of June.

In the third quarter of 2019, EyeGate began a follow-on trial for OBG in PE, evaluating several different exploratory endpoints, with topline data expected in the first half of 2020. PE occur in many ocular inflammatory conditions such as dry eye, conjunctivitis, trauma/corneal abrasions, contact lens wear, chemical irritation and burns. An estimated 18 million people in the US are diagnosed with dry eye syndrome (DES).

In the US, artificial tears followed by anti-inflammatories (including corticosteroids) are front-line treatment for DES. While both are effective for most patients, they treat symptoms and not the cause of DES. In addition, artificial tears tend to relieve symptoms for a few hours at most and corticosteroids are not designed for long-term use. Restasis, Xiidra, and more recently Cequa, are topical anti-inflammatories that can be used long-term. The downside is expense – as much as $600/month. In addition, the anti-inflammatories do not appear to work for a large proportion of patients, and many patients report stinging and burning sensation when the drops are applied.

EyeGate's follow-on trial for PE consists of 20 patients. Each patient had one eye randomized to treatment with OBG, the other to control (Allergan's *Refresh)* (AGN – NYSE). Enrollment was completed in January and the Company received positive preliminary top-line data at the end of March. The data show faster (10% improvement in OBG vs. no improvement in control at Day 7) and more significant (25% vs. 15%) improvement from baseline for OBG vs. control. The data appears to confirm results from the original pilot trial against a standard rewetting drop. Management is scheduled to meet with the FDA in early June to discuss next steps in filing for OBG in PE caused by dry eye. If successful, OBG will be the only FDA-approved lubricating eye drop with HA as an active ingredient.

FINANCIALS AND VALUATION

EyeGate is expected to report 1Q20 results in early May.

For 2019, EyeGate reported revenue $2.7 million compared to $1.7 million for 2018. Revenues in 2019 stemmed from EYEG's terminated licensing agreement to develop EGP-437 with Bausch Health Companies, Inc.

Research and development totaled $5.4 million in 2019, compared to $8.1 million for 2018. The drop was primarily related to the developmental halt for EGP-437, partially offset by increased costs to study OBG

in wound healing and PE. General and administrative expenses of $4.4 million for 2019 were largely unchanged from 2018.

EyeGate ended 2019 with cash and equivalents of $3.7 million. In early January 2020, the Company raised an additional $4.5 million in net proceeds from a registered direct offering of 500,000 shares.

We are adjusting our valuation to reflect the Company's 1-for-15 share reverse split in 2019 as well as a more modest near-term outlook from the economic slowdown. Our $12 valuation reflects royalty-based sales of $65 million by 2030 for both the PRK and PE indications. Our 10-year DCF uses 2% terminal sales growth, 20% EBIT margin and 25% tax rate, discounted back at 10%. We do not include any potential upfront or milestone payments in this calculation and assume all research and development expense is borne by EyeGate.

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