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Zacks Small-Cap Research

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EyeGate Pharmaceuticals (EYEG-NASDAQ)

Building towards FDA filings

Our $12.00 valuation is 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 $6.0 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 (05/18/20)	$5.29
Valuation	**$12.00**

SUMMARY DATA

52-Week High	**$12.20**
52-Week Low	**$2.40**
One-Year Return (%)	**31.80**
Beta	**1.70**
Average Daily Volume (sh)	**23,879**
Shares Outstanding (mil)	**5**
Market Capitalization ($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	**-3.0**
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	0.0 A				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	-$0.43 A				-$2.67 E
2021					-$1.63 E

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

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RECENT NEWS

EyeGate Pharmaceuticals is sticking to its business plan, despite any disruption from the pandemic. Meetings with regulators are on the schedule, and preparatory work for its approval filing continues.

First quarter results were in-line with estimates. Research and development rose to $0.9 million in the quarter, compared to $0.7 million in the year-earlier period. The modest increase reflects more activity related to OBG studies. General and administrative expenses dropped $0.1 to $1.0 million from $1.1 in the year earlier period, primarily from lower personnel and professional costs.

The Company used approximately $2.4 million in CFFO in the quarter and ended the quarter with cash and equivalents of $5.9 million.

Our $12 valuation reflects royalty-based sales of $65 million by 2030 for both the PRK and PE indications. Our model uses a 20% royalty rate to EYEG, with its partner assuming all manufacturing, selling, marketing and distribution expenses. 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.

OVERVIEW

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 – the products only treat symptoms and don't appear to address the underlying causes of DES. 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. However, both products have found strong acceptance from patients with serious DES.

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.

INDUSTRY OUTLOOK

INDUSTRY OUTLOOK - POSITIVE

Our outlook for the drug-biotech group is positive. There are a number of strong secular growth drivers that still power the pharmaceutical industry-namely, an aging population and an enormous research and development (R&D) effort to bring new, better drugs to market. People are living longer, and many have prescription pharmaceuticals to thank for it. Recent breakthroughs in oncology, neurology, and cardiology offer sizable market opportunities. Biotechnology research is finally starting to deliver. Expanded knowledge of genomics and proteomics is attracting significant attention from some of the industry's larger players. Drug companies are finding ways to reformulate and enhance current products. This is clearly a positive for the group.

We expect further consolidation throughout the industry. Specifically, we see smaller specialty and generic pharmaceutical companies getting together in an attempt to create scale. This should better allow these companies to compete with the large-cap players. In the large-cap space, we are pleased to see rationalization finally starting to take hold. Companies are divesting slower growth divisions or products, and focusing more on R&D. Bloated sales forces and marketing budgets are also being reigned in to streamline costs and improve margins.

Biotechnology should deliver the next wave of pharmaceutical products to the market. This should allow the group to outperform the broader sector. Thanks to favorable tax legislation and low debt levels, large pharmaceutical companies are in excellent position to acquire their smaller biotechnology brethren. We would be buyers of large profitable biotechnology stocks, as well as small-cap biotechnology stocks with promising pipelines. Performance of the large pharmaceutical group has been poor the past five years, but we believe these companies should have a meaningfully better second half of the decade. Most now offer low valuations and significant turnaround potential.

INDUSTRY POSITION

Analyst must write

Top 5 Public Companies in the industry

Ticker	*Company*	Market Share	*Zacks Rec*
TKPYY	Takeda Pharmact	19.27766	N/A
MKGAF	Merck Kgaa	14.91029	Hold
ALPMY	Astellas Pharma	12.82172	Hold
VRX	Valeant Pharma	9.57371	Buy
SHPG	Shire Plc-Adr	6.97693	Hold

RECENT NEWS

Analyst must write

VALUATION

Analyst must write

Industry Comparables

	Pr Chg YTD	P/E CurrFY	EPS Gr 5Yr Est	Price/ Book	Price/ Sales	Price/ CF
EYEGATE PHARMA	-50.7			2.5		
Industry Mean	2.1	24.3	16.2	7.1	109.9	18.6
Industry Median	-14.7	15.8	13.9	3.0	5.7	9.3
S&P 500	-11.4	18.1		12.1	5.0	19.4
SIERRA ONCOLOGY	-11.7			1.0		
SOLENO THERPTCS	12.6			15.6		

RISKS

- Analyst must write.

INSIDER TRADING AND OWNERSHIP

Analyst must write.

PROJECTED INCOME STATEMENT & BALANCE SHEET

Eyegate Pharma

Income Statement and Balance Sheet

(Dollars in millions, except EPS data)

	12/15	12/16	12/17	12/18	N/A	12/20E
Sales	0	1	0	2	3	N/A
Cost of Goods Sold	0	0	0	0	0	N/A
SG&A	4	6	5	4	4	N/A
Other operating expenses	3	8	10	8	5	N/A
Interest and other	2	0	-1	0	0	N/A
Zacks Adjusted Income before NRI	-17	-13	-15	-11	-7	-12
Net Income	-8	-13	-13	-11	-7	-12
Diluted EPS before NRI	-40.48	-22.64	-15.29	-4.50	-2.23	-2.67
Reported EPS	-40.48	-22.64	-13.94	-4.50	-2.23	-2.67
Cash & Marketable Securities	8	4	8	8	4	4
Current Assets	9	4	8	8	4	4
Current Liabilities	3	7	15	4	1	1
Long Term Debt	0	0	0	0	0	0
Shareholder's Equity	6	0	-2	9	7	-6

HISTORICAL STOCK PRICE


EYEGATE PHARMA (W)
Price ($)
30
28
26
24
22
20
18
16
14
12
10
8
6
4
2
6/30/17
9/22/17
12/15/17
3/9/18
6/1/18
8/24/18
11/16/18
2/8/19
5/3/19
7/26/19
10/18/19
1/10/20
4/3/20
<< 5/30/08
5/15/20 >>

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