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Zacks Small-Cap Research

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Cocrystal Pharma, Inc. (COCP-NASDAQ)

UPDATE: Cocrystal Pharma releases 2021 fiscal year results and provides an update on the current pipeline programs.

Utilizing a DCF valuation process containing conservative estimates combined with other valuation methodologies, we believe COCP could be worth $3.25. There is a wide range of outcomes which could materially increase or decrease our target price.

Current Price (03/24/22)	$0.56
Valuation	**$3.25**

OUTLOOK

Cocrystal Pharma is a clinical stage biotechnology company focused on novel antiviral treatments in the areas of coronavirus, influenza, hepatitis, and norovirus. The company has a proprietary drug discovery platform technology that provides more rapid and efficient drug discoveries. The company has a seasoned management team and experienced science advisory board that includes two Nobel laureates. Cocrystal has been successful at raising capital throughout its history and runs a cost-efficient operation with a clean capital structure and no debt. We believe that the company has sufficient funding for planned operations through 2023.

SUMMARY DATA

52-Week High	**$3.46**
52-Week Low	**$0.45**
One-Year Return (%)	**-17.94**
Beta	**1.04**
Average Daily Volume (sh)	**479,811**
Shares Outstanding (mil)	**97.5**
Market Capitalization ($mil)	**$50.7**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**16.0**
Insider Ownership (%)	**25.3**
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 2022 Estimate	**N/A**
P/E using 2023 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High**
Type of Stock	**Small-Growth**
Industry	**Biotechnology**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020	0.46 A	0.55 A	0.49 A	0.51 A	2.01 A
2021	0.00 A	0.00 A	0.00 A	0.00 A	0.00 A
2022	0.75 E	0.75 E	0.75 E	0.75 E	3.00 E
2023	1.80 E	1.80 E	2.70 E	2.70 E	9.00 E

EPS / Loss Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020	-$0.05 A	-$0.07 A	-$0.05 A	-$0.01 A	-$0.17 A
2021	-$0.04 A	-$0.04 A	-$0.04 A	-$0.04 A	-$0.16 A
2022	-$0.03 E	-$0.03 E	-$0.04 E	-$0.05 E	-$0.15 E
2023	-$0.04 E	-$0.04 E	-$0.03 E	-$0.03 E	-$0.14 E

Quarterly revenues may not equal annual revenues due to rounding.
Quarterly EPS may not equal annual EPS due to rounding or dilution.

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WHAT'S NEW

Financial Review

Cocrystal Pharma (COCP) reported 4th quarter and full year 2021 results on March 23rd, 2022. The numbers were largely in line with our estimates. For 2021, the company reported no revenues as expected. General & Administrative expenses were $5.43 million which was lower than 2020 levels and slightly below our estimates. This was primarily due to reduced professional fees resulting from the conclusion of certain previously reported legal matters.

Research & Development expenses came in at $8.8 million for the year, an increase of 45.7% from the prior year as the company ramped up spending for their Covid-19 and influenza programs. Cocrystal expects R&D expenses to increase again during 2022 due to the advancement of the influenza A program into clinical trials as well as progress with preclinical COVID-19 programs toward clinical development.

Net loss for the year was $14.2 million, or $0.16 per diluted shares, which was inline with our expectations. Net cash used in operating activities was $12.7 million and capital expenditures were only $52,000. The company raised $38.5 million in equity capital during 2021 through both an ATM offering and a secondary public offering.

The company's unrestricted cash balance at year end was $58.7 million and total liabilities were only $1.84 million, none of which was considered traditional debt.

Program Update

Intranasal/Pulmonary Protease Inhibitor CDI-45205 – In early 2022, the company received guidance from the FDA regarding further development of CDI-45205, their novel SARS-CoV-2 main protease inhibitor as a potential treatment for COVID-19 and its variants via intranasal/pulmonary delivery. The guidance provides a clearer pathway for a planned Phase 1 single-ascending-dose and multiple-ascending-dose study that is expected to begin in 2022, as well as directives for designing a subsequent Phase 2 study.

CDI-45205 was among the broad-spectrum viral protease inhibitors obtained from Kansas State University Research Foundation (KSURF) under an exclusive license agreement announced in 2020. The company believes the protease inhibitors obtained from KSURF have the ability to inhibit the inactive SARS-CoV-2 polymerase replication enzymes into an active form.

Oral Protease Inhibitors CDI-988 and CDI-873 – In January 2022, the company chose investigational novel antiviral drug candidates CDI-988 and CDI-873 for further development as potential oral treatments for COVID-19. Both candidates were designed and developed using their proprietary structure-based drug discovery platform technology. These agents are chemically differentiated and exhibit superior in vitro potency again SARS-CoV-2, with activity maintained against current variants of concern. Both candidates demonstrated a favorable safety profile and pharmacokinetic properties that are supportive of daily oral dosing.

Cocrystal plans to initiate a Phase 1 trial as soon as possible in 2022 with one of these candidates. The company believes the FDA's guidance for further development of CDI-45205 provides them with a clearer pathway for the clinical development of the oral COVID-19 program.

Pandemic and Seasonal Influenza A – In March 2022, the company announced dosing of the first subjects in the Phase 1 clinical trial with CC-42344 that is taking place in Australia. A novel PB2 inhibitor, CC-42344 has shown excellent antiviral activity against influenza A strains, including pandemic and seasonal strains, as well as strains resistant to Tamiflu and Xofluza. CC-42344 also has favorable

pharmacokinetic and drug-resistance profiles. The company expects to report data on the Phase 1 clinical trial at some point in 2022.

Pandemic and Seasonal Influenza A/B program - In January 2019, Cocrystal entered into an Exclusive License and Research Collaboration Agreement with Merck to discover and develop certain proprietary influenza antiviral agents that are effective against both influenza A and B strains. This agreement includes milestone payments of up to $156 million plus royalties on sales of products discovered under the agreement.

In January 2021, the company announced they had completed all of their research obligations under the agreement. Merck is now solely responsible for further preclinical and clinical development of the influenza A/B antiviral compounds discovered under this agreement. Merck continues developmental activities with the antiviral influenza A/B compounds the company discovered under this agreement.

Other – There was no material news with regards to the company's Norovirus and Hepatitis C programs. The company is still looking for a partner to advance the development of the Hepatitis C program (CC-31244).

Valuation & Estimate Changes

The company's cash position of $58.7 million should be sufficient to fund their operations through the end of 2023, and possibly into 2024, depending on R&D spending levels and possible milestone payments from Merck.

There is no change to our revenue and earnings estimates as reported in our Initiation on February 24th , 2022. The valuation of $3.25 is unchanged as well. Earnings estimates and valuations may be adjusted after the company reports 1st quarter 2022 earnings.

KEY INVESTMENT POINTS

- Founded in 2006, Cocrystal Pharma (COCP) is a clinical stage biotechnology firm headquartered in Bothell, WA with approximately 13 employees at this time.
- The company's product pipeline targets large addressable markets globally for the effective treatment of acute and pandemic viral diseases. These technologies are designed to efficiently deliver small molecule therapeutics that are safe, effective, and convenient to administer.
- Cocrystal has a strong and promising therapeutic drug development pipeline covering treatments for Covid-19, influenza, hepatitis, and norovirus. At this time, the company has not pursued antiviral vaccine development.
- The company has developed a proprietary drug discovery platform technology that accelerates the timeline for drug discovery and development. This technology has been largely developed based on the work of Nobel laureate Roger Kornberg, PHD.
- Phase 1 clinical trials are expected to commence in 2022 for three of the company's drug development programs including two for the treatment of Covid-19 and one for Influenza A.
- A collaboration with Merck related to influenza A/B treatments has the potential to generate up $156 million in milestone payments and royalties and further validates Cocrystal's advanced drug discovery platform.

- Cocrystal's interim Co-CEOs Dr. Sam Lee and James Martin offer a depth of experience in clinical and drug discovery research as well as financial leadership in health science companies.

- The company has been successful in accessing the equity capital markets over the past 24 months raising approximately $74 million in cash to fund future operations.

- We believe Cocrystal has cash and available liquidity to fund current planned operations until 2023.

OVERVIEW

Source: cocrystalpharma.com/

Cocrystal Pharma is a pre-revenue, clinical-stage biotechnology company that is leveraging its core competencies and decades of management experience in antiviral therapeutics to fight not only the global Covid-19 health crisis, but other complex and problematic viral related infections and disease.

Founded in 2006 by Gary Wilcox (d. 2021), Dr. Sam Lee, Roger Kornberg and Philip Frost, the company focuses on therapeutics and treatments for serious or chronic viral diseases. The company has pursued both therapeutic and prophylactic avenues of fighting viral diseases, but not in the vaccine market as that area is currently established and competitive. Preventing viral replication is a key tenet of the company's research and development.

The company was originally privately funded by entrepreneur and pharmaceutical executive Dr. Phillip Frost who was involved with Ivax Corporation and Teva Pharmaceuticals. Cocrystal went public in 2014 through a reverse merger with an existing shell company at the time. In 2015, they merged with RFS Pharma, a privately owned biotech company founded by renowned drug developer, Dr. Raymond Schinazi. The company has generally been successful at raising capital through equity financing transactions since going public. More recently, in 2021 the company raised $38.5 million through a normal course secondary offering under a current shelf registration. Additionally, in 2020, they raised $35.8 million through a secondary ATM offering.

The company has developed a proprietary drug discovery platform technology that provides potential for viable drug candidates at reduced costs and with shorter discovery and development timelines. This involves utilizing high throughput x-ray crystallography at near atomic resolution to deliver potent and effective molecules that can evade viral resistance.

Cocrystal currently has seven active programs in its product pipeline of which three of these are devoted to treatments for SARS-CoV-2. Two programs are related to effective antiviral treatments for pandemic and seasonal influenza infections and one is a legacy approach to shortening treatments for Hepatitis C. The final program deals with Norovirus Gastroenteritis, a highly contagious widespread virus that causes diarrhea, nausea and stomach pain.

The company has been successful in creating a growing patent portfolio wall that protects its research and covers the areas of coronavirus, pandemic influenza, seasonal influenza, norovirus and hepatitis C. Cocrystal has issued patents, or pending patent applications in the U.S. and around the world.

Although the path to commercialization of its drug prospects may be long as it progresses through its pre-clinical development and clinical trials, the company is confident it has the capital to fund currently

planned operations. The option to license its discoveries to larger pharmaceutical or biotechnology companies remain a viable option which would occur on a closer time frame than commercialization.

In the Influenza A program, the patent portfolio consists of four patent families, including two pending international (PCT) applications and two families of pending applications in the U.S. and various foreign countries.

In the Influenza A/B program, the patent portfolio consists of a number of patent families pending, variously, as international (PCT) applications and in Taiwan. Aspects of this program are developed in collaboration with Merck.

In the Norovirus and Coronavirus programs, the patent portfolio consists of three pending families of U.S. provisional applications, and a portfolio of patent families licensed through KSURF.

RISK FACTORS

- The company have never generated revenue from product sales and all product candidates are currently in the pre-clinical and early clinical stage. The ability to generate revenue from product sales and achieve profitability depends on their ability, alone or with partners, to successfully complete the development of, obtain the regulatory approvals for, and commercialize pharmaceutical product candidates.

- The company may continue to incur significant losses for the foreseeable future and never generate revenue from product sales. As an early-stage drug development company, the company's focus is on developing product candidates, obtaining regulatory approvals, and commercializing pharmaceutical products. As a result, the company has an accumulated deficit of $245,000,000 from inception through December 31, 2020.

- The company's Covid-19 program is in the preclinical stage. The company initiated preclinical studies during the second quarter of 2020 and selected the lead preclinical molecule in the fourth quarter of 2020. The company may be unable to produce an effective therapy in a timely manner or at all. Additionally, they are committing substantial financial and other resources to the Covid-19 program, which may negatively impact other drug development programs.

- Many of the company's competitors that are also developing treatments for the Covid-19 virus, and other viruses, have substantially more resources including government funding than the company does and have existing products in significantly more advanced stages of development.

- The company relies on 3rd parties for many, or all aspects of compound formulation, research and preclinical testing. These included Clinical Research Organizations (CROs) as well as outside organizations that own and maintain advanced devices for x-ray crystallography.

- The company relies on a combination of patents, trade secret protection and confidentiality agreements to protect the intellectual property related to future products and drug product candidates. The strength of patents in the biotechnology and pharmaceutical field involves complex legal and scientific questions and can be uncertain. The owned patent applications may fail to result in patents with claims that cover the products in the United States or in other countries.

- The company will continue to generate significant operating losses for the foreseeable future and likely until its drug products reach commercialization or licensure arrangements. Capital financing to support these losses, either from the equity or debt markets, may not always be available based on economic or market conditions.

VALUATION

Our primary valuation tool utilizes a Discounted Cash Flow process and produces three different scenarios.

Bull Case – The company experiences some form of success in all of its seven key programs currently in the development pipeline over a 10-year time frame. This includes full realization of the $156 million in Merck milestone payments related to the Influenza A/B program. It also assumes commercialization revenues or partnership licensure revenues from the Oral and Nasal Covid-19 treatment programs will occur starting in 2024 and will become a material source of revenues in 2025. The value in this scenario is $5.32 and we apply a probability factor of 50%.

Base Case – The company experiences success in programs currently planned for clinical trials over the next 12-18 months but does not make progress in programs currently in pre-clinical or lead discovery phase. The value in this scenario is $2.66 and we apply a probability factor of 35%.

Bear Case – The company fails to create material revenue or profit opportunities over the next five years in the majority of its drug development programs and must raise additional equity capital. The value in this scenario is the current stock price of $0.59 and we apply a probability factor of 15%.

The weighted average price target of these three scenarios is **$3.87**. It is notable that the DCF calculation incorporates a 12% discount rate, which is very conservative in the light of global risk-free rates that are still near record lows.

We also use a forward Prices/Sales calculation by taking projected 2026 revenues of $44,508,750 and applying an advanced stage biotechnology sector average of 5.90x to derive a future market capitalization of $287.5 million. This is discounted back to a present value and provides a current stock valuation of **$2.63** per share.

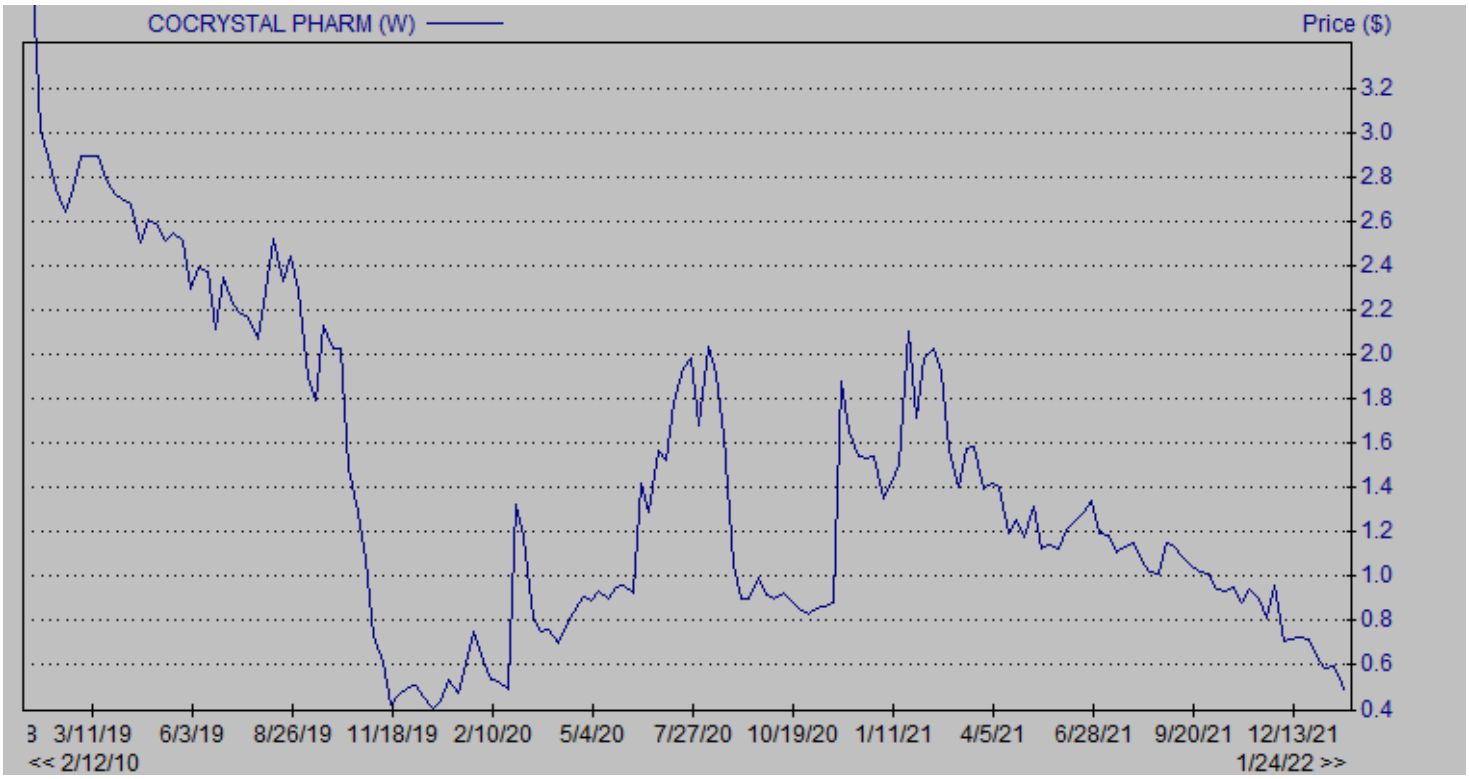
The average of these two valuation methodologies creates a target value of $3.15, which we round up to **$3.25** to account for the conservative nature of our projections.

SUMMARY PROJECTED INCOME STATEMENT & BALANCE SHEET

Cocrystal Pharma
Income Statement and Balance Sheet
(Dollars in millions, except EPS data)

	12/20	12/21A	12/22E	12/23E	12/24E	12/25E
Sales	2.0	0.0	3.0	9.0	17.0	32.5
SG&A	5.3	5.4	8.3	11.0	9.0	7.9
R&D	6.3	8.8	9.5	12.1	10.9	8.7
Net Income	-10.0	-14.2	-15.2	-15.0	-4.2	10.0
EPS	-0.18	-0.16	-0.16	-0.15	-0.04	0.10
Cash	33.0	58.7	43.4	29.4	26.1	37.0
Long Term Debt	0.0	0.0	0.0	0.0	0.0	0.0
Shareholder's Equity	54.2	77.5	60.9	46.0	41.8	51.9

HISTORICAL STOCK PRICE



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