November 15, 2022

Zacks Small-Cap Research

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Cocrystal Pharma, Inc. (COCP-NASDAQ)

UPDATE: Cocrystal Pharma releases 2022 3rd quarter 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 $9.15. There is a wide range of outcomes which could materially increase or decrease our target price.

Current Price (11/14/22)	$3.00
Valuation	**$9.15**

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 an 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	**$11.88**
52-Week Low	**$2.05**
One-Year Return (%)	**-72.5**
Beta	**0.70**
Average Daily Volume (sh)	**38,877**
Shares Outstanding (mil)	**8.14**
Market Capitalization ($mil)	**$24.3**
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	0.00 A	0.00 A	0.00 A	0.00 E	0.00 E
2023	1.00 E	1.30 E	1.70 E	1.90 E	6.00 E

Adjusted EPS / Loss Per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2020					
2021					
2022	-$0.52 A	-$0.46 A	-$0.70 A	-$0.73 E	-$2.41 E
2023	-$0.67 E	-$0.71 E	-$0.64 E	-$0.64 E	-$2.66 E

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

WHAT'S NEW

Financial Review

Cocrystal Pharma (COCP) reported 2022 3rd quarter results on November 14, 2022. General & Administrative expenses were $1.8 million and Research & Development expenses came in at $3.9 million for the quarter which was above our expectations. R&D spending is being ramped up for the influenza Phase 1 trial and the advancement of the preclinical Covid-19 program.

The company reported a net loss of ($5.7) million, or ($0.70) per diluted. Net cash used in operating activities for the first 9 months of 2022 was $16.5 million. There were no capital raises during the quarter from either the equity markets or debt financing.

The company's unrestricted cash balance at quarter end was $42.0 million and total liabilities were only $1.7 million, none of which is considered traditional debt.

CFO and co-interim CEO Jim Martin stated*, "The recent increase in patients hospitalized with viral disease particularly among the pediatric population underscores the need for effective, broad-spectrum antivirals and provides rationale for our approach in developing candidates with barriers to drug resistance. We continue to be well positioned to execute on our clinical and regulatory goals given our clean capital structure, cost-efficient business model and a cash balance we believe is sufficient to fund planned operations for the next three years. That said, we continue to pursue non-dilutive funding to further support development of our promising antiviral programs."*

On October 3rd, the company announced that its Board of Directors has approved a 1-for-12 reverse stock split for its common stock. Cocrystal's common stock began trading on a split-adjusted basis on October 11, 2022. The reverse stock split will reduce the number of shares of common stock outstanding from approximately 97.5 million shares to approximately 8.1 million shares but will not change the authorized number of shares of common stock, which remains at 150 million shares of common stock.

Program Updates & Additional News

Pandemic and Seasonal Influenza A – In March 2022, Cocrystal initiated enrollment in a Phase 1 study with orally administrated antiviral CC-42344 in healthy adults. This randomized, double-controlled, dose-escalating study is designed to assess the safety, tolerability and pharmacokinetics of CC-42344.

In April 2022, the company announced preliminary data from its Phase 1 study with CC-42344, which demonstrated a favorable safety and pharmacokinetic profile in the first two cohorts administered single-ascending doses of 100 mg and 200 mg. The company expects to complete this Phase 1 clinical study and report relevant data in 2022.

On July 14th, the company announced that pharmacokinetic (PK) data from the single ascending dose portion of a Phase 1 study with its novel, broad-spectrum, orally administered antiviral candidate CC-42344 for the treatment of pandemic and seasonal influenza A support the potential for once-daily dosing. The single ascending dose portion of the Phase 1 study has been completed and subjects are currently being enrolled in the multiple ascending dose portion of the Phase 1 study.

"The PK data from single ascending dose portion of the trial mark a major milestone in the development of CC-42344's as our drug holds potential to be administered once a day, less frequently than the leading influenza treatment Tamiflu®," said President and co-interim CEO Sam Lee. "Unlike the mechanism of action of existing influenza A treatments, CC-42344 is a PB2 inhibitor that blocks an essential step of influenza viral replication and transcription. Completed in vitro testing demonstrated potent antiviral

activity against prevalent influenza A strains that are resistant to the two approved influenza treatments Tamiflu® and Xofluza®."

In November 2022 the company announced the Phase 1 study had reached full enrollment and reiterated expectations to report topline results in 2022. Additionally, the company entered into an agreement with a UK-based clinical research organization to conduct a human challenge Phase 2a study evaluating safety, viral and clinical measures of orally administered CC-42344 in influenza A-infected subjects. Under the human challenge model, healthy adults will be infected with the influenza A virus under carefully controlled conditions, which we believe will hasten trial enrollment and ensure subjects are infected with influenza A.

The company expects to submit an application with the United Kingdom Medicines and Healthcare Products Regulatory Agency in early 2023 to conduct a human challenge Phase 2a study. Pending clearance by the agency, the company expects to initiate the study in the second half of 2023.

Intranasal/Pulmonary Protease Inhibitor CDI-45205 – This is the company's novel SARS-CoV-2 3CL (main) protease inhibitor being developed as a potential treatment for COVID-19 and its variants via intranasal/pulmonary delivery. The company has initiated scale-up synthesis and process chemistry development with CDI-45205 in order to assemble data to support an IND application with the goal of progressing to a first-in-human clinical trial in 2022.

In January 2022, Cocrystal received guidance from the FDA regarding further preclinical and clinical development of CDI-45205 that provides them with a clearer pathway for the Phase 1 study that is expected to commence at some point in 2022, as well as directives for designing a subsequent Phase 2 study.

CDI-45205 demonstrated good bioavailability in mouse and rat pharmacokinetic studies via intraperitoneal injection, and no cytotoxicity against a variety of human cell lines. CDI-45205 also demonstrated a strong synergistic effect with the FDA-approved COVID-19 medicine remdesivir.

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 still believes the protease inhibitors obtained from KSURF have the ability to inhibit the inactive SARS-CoV-2 polymerase replication enzymes into an active form.

In April 2022, the company announced a collaboration with the National Institute of Allergy and Infectious Diseases (NIAID) to evaluate the potential of the COVID-19 3CL protease inhibitors for the treatment of COVID-19, with the NIAID responsible for in vitro and in vivo studies evaluating the antiviral activity of the compounds. In June 2022 the company expanded this collaboration by providing our proprietary process chemistry information for oral 3CL protease inhibitors to the NIAID to support scale-up synthesis of a key intermediate of these compounds.

Oral Protease Inhibitors CDI-988 and CDI-873 – During the quarter, the company selected CDI-988 as the lead candidate for development as a potential oral treatment for SARS-CoV-2. CDI-988, which was designed and developed using our proprietary structure-based drug discovery platform technology, targets a highly conserved region in the active site of SARS-CoV-2 3CL (main) protease required for viral RNA replication. CDI-988 exhibits superior in vitro potency against SARS-CoV-2 with activity maintained against current variants of concern and demonstrated a safety profile and PK properties that are supportive of daily dosing.

The company is currently conducting good laboratory practice (GLP) toxicology studies in preparation for a Phase 1 study and plans to initiate a Phase 1 study in the first quarter of 2023. The company believes the FDA's guidance for further development of their antiviral candidate CDI-45205 provides them with a clearer pathway for a planned Phase 1 study with CDI-988, as well as directives for designing a subsequent Phase 2 study.

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.

Valuation & Estimate Changes

The company's current cash position of $42.0 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.

We are adjusting our earnings estimate and valuation target based on higher than expected levels of R&D and the 1-12 reverse stock split. We estimate a 4th quarter EPS loss of ($0.73) and a full year loss of ($2.41). Our valuation target is adjusted to **$9.15** (see valuation details below).

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.
- 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 $259,093,000 from inception through December 31, 2021.

- 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.

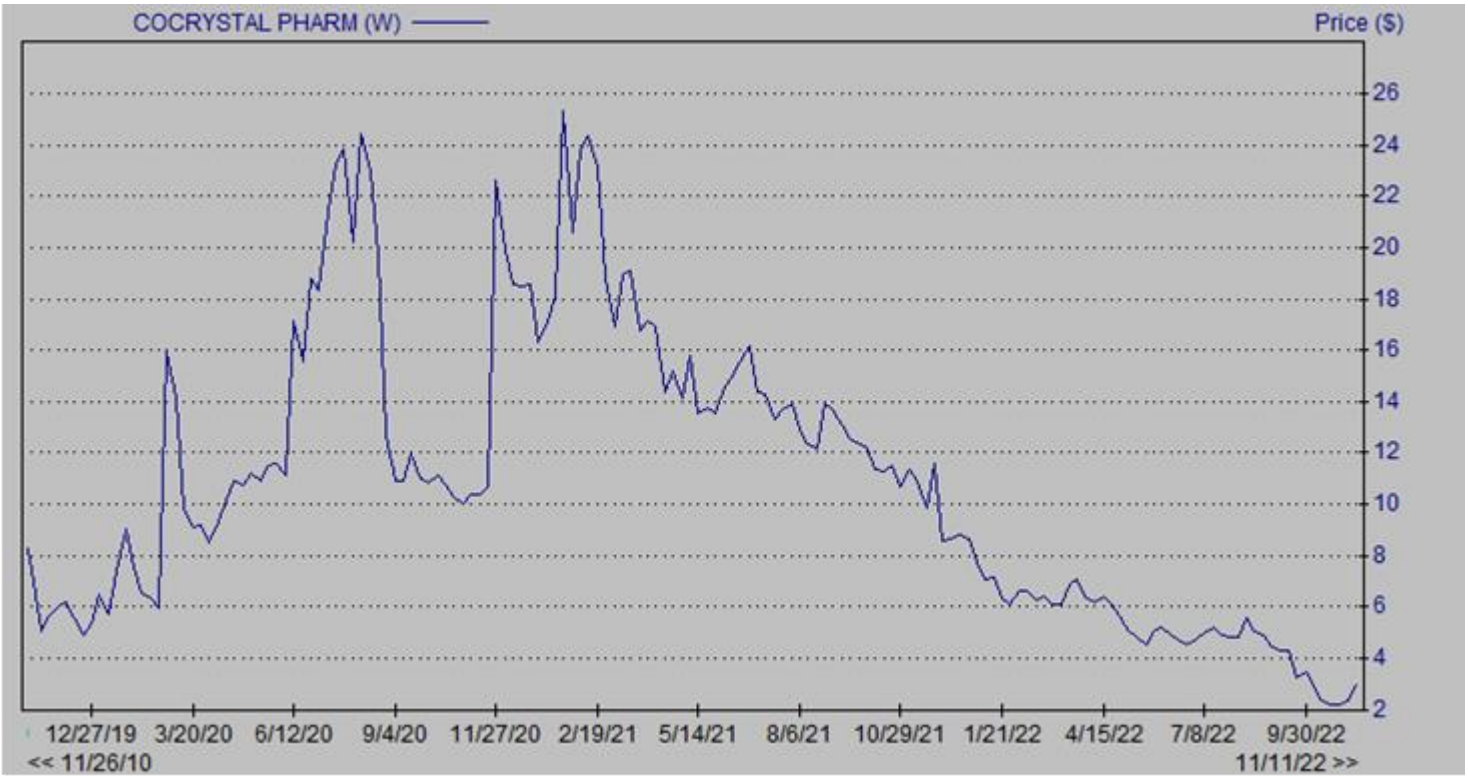
Bull Case – The company experiences some form of success in all of its seven key programs currently in the development pipeline over a 10-year time frame. This includes full realization of the $156 million in Merck milestone payments related to the Influenza A/B program. It also assumes commercialization 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 $12.39 and we apply a probability factor of 45%.

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 $7.80 and we apply a probability factor of 40%.

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 $3.00 and we apply a probability factor of 15%.

The weighted average price target of these three scenarios is **$9.15**. It is notable that the DCF calculation incorporates a 20% discount rate due to higher prevailing global interest rates.

HISTORICAL STOCK PRICE



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