Zacks Small-Cap Research
Sponsored – Impartial - Comprehensive

April 13, 2023
David Bautz, PhD
312-265-9471
dbautz@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

ContraFect Corp. (CFRX-NASDAQ)

CFRX: Initiates Phase 1 Trial for Exebacase in Chronic Prosthetic Joint Infection…

Based on our updated probability adjusted DCF model that takes into account potential future revenues from the lysin pipeline, our valuation of CFRX is $7.00/share. This model is highly dependent upon clinical success for exebacase and advancement of additional lysin products and will be adjusted accordingly based upon future clinical results.

Current Price (04/13/23)	$1.01
Valuation	**$7.00**

OUTLOOK

On April 3, 2023, ContraFect Corp. (CFRX) announced the initiation of a Phase 1b/2 clinical trial of exebacase in the setting of an arthroscopic debridement, antibiotics, irrigation, and retention (DAIR) procedure in patients with chronic prosthetic joint infections (PJI) of the knee due to Staphylococcus aureus or Coagulase-Negative Staphylococci (CoNS). It will be a randomized (3:1), double blind, placebo controlled trial conducted in France to assess the safety, pharmacokinetics (PK), and efficacy of intra-articularly administered exebacase. Part I will assess efficacy at an early, six-week timepoint in addition to safety and PK. Part II will be a long-term clinical safety and efficacy follow-up for a period of up to two years.

SUMMARY DATA

52-Week High	**$356.00**
52-Week Low	**$1.01**
One-Year Return (%)	**-99.67**
Beta	**0.43**
Average Daily Volume (sh)	**195,653**
Shares Outstanding (mil)	**2**
Market Capitalization ($mil)	**$2**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**27**
Insider Ownership (%)	**4**
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 2019 Estimate	**N/A**
P/E using 2020 Estimate	**N/A**

Risk Level	**High**
Type of Stock	**Small-Value**
Industry	**Med-Drugs**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	0 A	0 A	0 A	0 A	0 A
2023	0 E	0 E	0 E	0 E	0 E
2024					0 E
2025					0 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2022	-$41.00 A	-$36.79 A	-$34.71 A	-$16.12 A	-$124.97 A
2023	-$10.83 E	-$11.17 E	-$3.55 E	-$1.85 E	-$15.39 E
2024					-$3.75 E
2025					-$2.78 E

© Copyright 2023, Zacks Investment Research. All Rights Reserved.

Business Update

Clinical Trial Initiated for Exebacase in Chronic Knee Prosthetic Joint Infections

On April 3, 2023, ContraFect Corp. (CFRX) announced the initiation of a Phase 1b/2 clinical trial of exebacase in the setting of a minimally-invasive arthroscopic debridement, antibiotics, irrigation, and retention (DAIR) procedure in patients with chronic prosthetic joint infection (PJI) of the knee due to *Staphylococcus aureus* or Coagulase-Negative Staphylococci (CoNS).

The trial will be a randomized, double blind, placebo controlled two-part study of exebacase to assess its safety and efficacy. Part I of the study will evaluate the safety, pharmacokinetics (PK), clinical outcomes, and microbiologic response in patients through Day 42. The study allows for up to two doses of intra-articularly administered exebacase in addition to systemic antibiotics in up to two patient cohorts. Part II of the trial will be a long-term follow-up study of safety and efficacy parameters in patients who complete Part 1 of the trial. The follow-up assessments will be performed on Days 90, 180, 360, and 720.

In September 2022, ContraFect announced a presentation by Dr. Tristan Ferry at the 40th Annual Meeting of the European Bone and Joint Infection Society on data from a single center, exploratory, open label prospective study using a minimally invasive LysinDAIR procedure in patients with chronic knee PJIs.

The presentation included data from two cohorts, with each cohort consisting of four patients with chronic PJIs that received the LysinDAIR procedure (arthroscopic debridement with retention of the implant, followed by intra-articular administration of exebacase and systemic antibiotic therapy).

Cohort one consisted of patients experiencing their first episode of chronic knee PJI. Patients received three months of clindamycin and levofloxacin following the LysinDAIR procedure. Results showed that exebacase was well tolerated by all patients with no local or systemic serious adverse events related to exebacase treatment. Through a period of 36 months of follow up the patients have experienced no relapse of infection, no recurrence of joint effusion, and no loosening of the prostheses.

Cohort two included patients suffering from multi-drug resistant knee PJI. These patients received three months of systemic antibiotics plus additional suppressive antimicrobial therapy following the LysinDAIR procedure. Results for this cohort showed that exebacase was again well tolerated by all patients and no local or systemic events related to exebacase treatment were reported. Two patients experienced no relapse of infection through a follow up periods of up to 12 months. One patient experienced a relapse of infection of *Staphylococcus caprae* after six months. One patient died from an unrelated COVID-19 infection.

In October 2022, ContraFect presented a poster that included new clinical data for the LysinDAIR procedure in patients with chronic prosthetic hip infection (Ferry *et al*., 2022). Three patients were included in the study and all had previous iterative hip prosthesis exchange, a high total number of surgeries (6-10), and recent persistent or intermittent fistula. At two years follow up, all patients had resolution of fistula and no clinical signs of infection on suppressive antimicrobial therapy.

A recent editorial in the *Journal of Bone and Joint Infections* discussed the potential for lysins (exebacase and CF-296) as treatments for bone and joint infections (BJIs) due to their activity against coagulase-negative staphylococci, the bacteria most frequently involved in implant-associated BJIs, and their potential for both local and systemic anti-biofilm activity (Sendi *et al*., 2022). Current antibiotic treatments are often unable to resolve these infections, thus the authors postulated that the use of lysins could help to potentiate antibiotic activity and make these types of infections more easily treated.

Another recent publication highlighted the *in vitro* activity of exebacase against biofilms formed by *Staphylococcus epidermidis* isolated from PJIs (Souche *et al*., 2022). Results showed that exebacase displayed significant anti-biomass activity, significant bactericidal activity on biofilms, and worked synergistically with rifampicin, vancomycin, or daptomycin. The authors concluded that exebacase was a promising therapy that should be investigated further for its use in the treatment of PJIs alongside the aforementioned antibiotics.

Financial Update

On March 31, 2022, ContraFect announced financial results for the fourth quarter and full year 2022. As expected, the company did not report any revenues for the fourth quarter or full year 2022. Net loss for the fourth quarter of 2022 was $9.8 million, or $16.14 per share, compared to a net loss of $4.4 million, or $8.95 per share, for the fourth quarter of 2021. R&D expenses in the fourth quarter of 2022 were $4.4 million compared to $11.0 million in the fourth quarter of 2021. The decrease was primarily due to significantly reduced expenditures on CMC activities for exebacase, the continued closure of the Phase 3 DISRUPT trial, and decreased headcount and personnel costs following the restructuring of the company's workforce in the third quarter of 2022. G&A expenses in the fourth quarter of 2022 were $2.3 million compared to $3.0 million in the fourth quarter of 2021. The decrease was primarily due to decreased headcount and related personnel costs after the restructuring of the company's workforce in the third quarter of 2022.

For 2022, the company reported a net loss of $65.2 million, or $124.97 per share, compared to a net loss of $20.3 million, or $44.12 per share, for 2021. The net loss for the current year includes $4.8 million, or $9.23 per share, of non-cash charges related to the of the warrants issued in connection with the company's December 2022 offering. Those charges were offset by a $4.2 million, or $8.03 per share, non-cash gain from the change in the fair value of the company's warrant liabilities. In the prior year period, the net loss included an $26.9 million, or $58.46, non-cash gain from the change in the fair value of the company's warrant liabilities. R&D expenses in 2022 were $44.7 million compared to $35.5 million for 2021. The increase was primarily due to the increase in spending on clinical activities related to the Phase 3 DISRUPT trial and on manufacturing costs for both exebacase and CF-370. G&A expenses in 2022 were $12.2 million compared to $11.8 million in 2021. The increase was primarily due to increases in legal expenses.

As of December 31, 2022, ContraFect had approximately $13.7 million in cash and cash equivalents. In March 2023, ContraFect completed a direct offering of common stock and warrants for net proceeds of $9.2 million. As of March 24, 2023, the company had approximately 1.6 million shares outstanding and, when factoring in stock options and warrants, a fully diluted share count of approximately 11.0 million.

Conclusion

We're excited to see that the Phase 1b/2 trial of exebacase in PJI is underway. This is a great opportunity for the company to test the efficacy of exebacase in a new indication and one for which there are limited treatment options. We look forward to updates from the company regarding the trial throughout the year. In addition, we look forward to the IND filing for CF-370 so that a clinical trial can be initiated later this year. We have adjusted our model due to the two recent financings and the 1-for-80 reverse split and our valuation now stands at $7 per share.

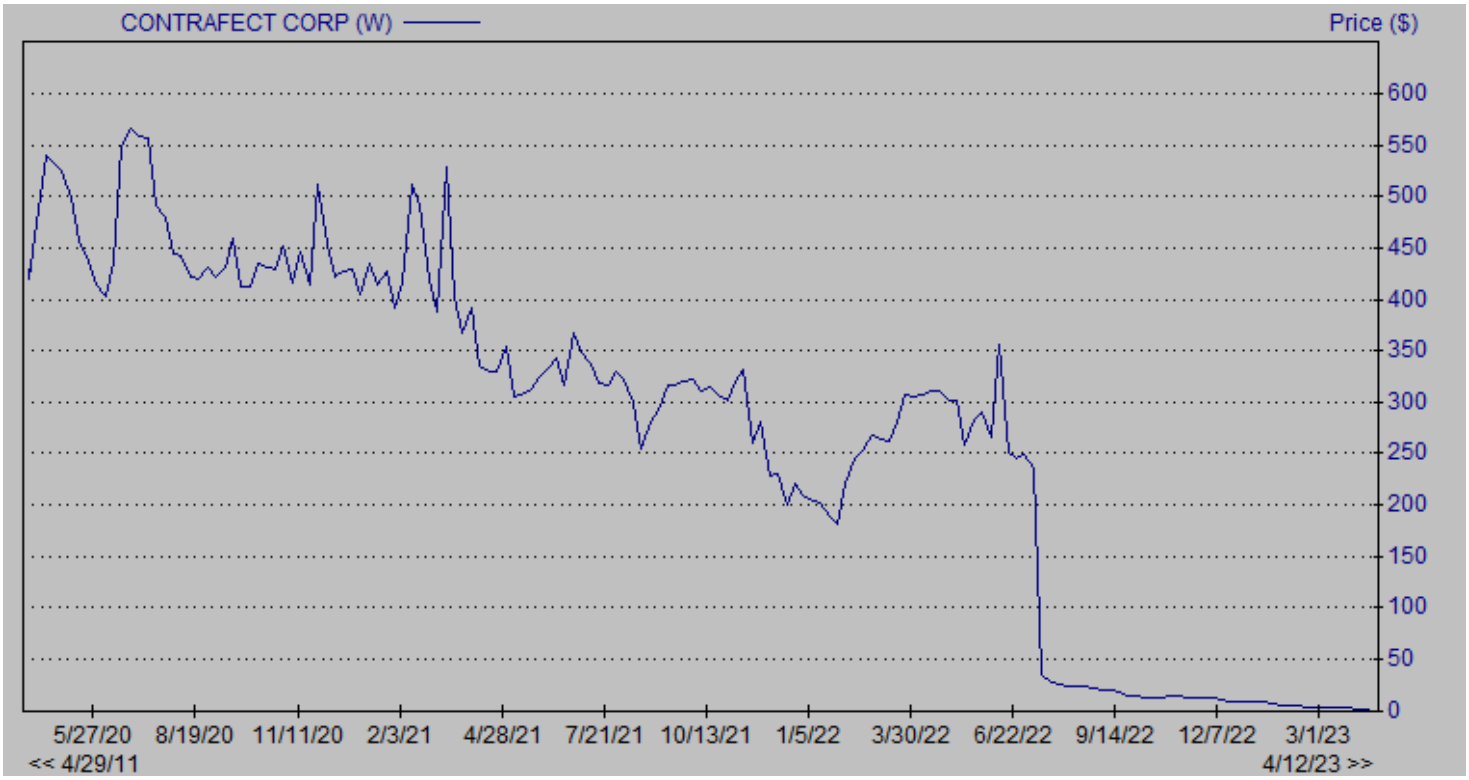
PROJECTED FINANCIALS

ContraFect Corp.	2022 A	Q1 E	Q2 E	Q3 E	Q4 E	2023 E	2024 E	2025 E
Exebacase	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth		-	-	-	-			
Grants & Collaborative Revenue	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth		-	-	-	-			
Total Revenues	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
YOY Growth		-	-	-	-			
Cost of Sales	$0	$0	$0	$0	$0	$0	$0	$0
Product Gross Margin		-	-	-	-			
Research & Development	$44.7	$4.2	$4.4	$4.7	$5.0	$18.3	$20.0	$23.0
General & Administrative	$12.2	$2.3	$2.3	$2.4	$2.4	$9.4	$10.0	$10.4
Other Expenses	$8	$0	$0	$0	$0	$0	$0	$0
Operating Income	($64.6)	($6.5)	($6.7)	($7.1)	($7.4)	($27.7)	($30.0)	($33.4)
Operating Margin		-	-	-	-			
Non-Operating Expenses (Net)	($0.5)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	($65.2)	($6.5)	($6.7)	($7.1)	($7.4)	($27.7)	($30.0)	($33.4)
Income Taxes Paid	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	**($65.2)**	**($6.5)**	**($6.7)**	**($7.1)**	**($7.4)**	**($27.7)**	**($30.0)**	**($33.4)**
Net Margin		-	-	-	-			
Reported EPS	**($124.97)**	**($10.83)**	**($11.17)**	**($3.55)**	**($1.85)**	**($15.39)**	**($3.75)**	**($2.78)**
YOY Growth		-	-	-	-			
Basic Shares Outstanding	0.5	0.6	0.6	2.0	4.0	1.8	8.0	12.0

Source: Zacks Investment Research, Inc. *David Bautz, PhD*

© Copyright 2023, Zacks Investment Research. All Rights Reserved.

HISTORICAL STOCK PRICE



Source: Zacks Investment Research

© Copyright 2023, Zacks Investment Research. All Rights Reserved.

DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, David Bautz, PhD, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly, from an investment manager, or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

CANADIAN COVERAGE

This research report is a product of Zacks SCR and prepared by a research analyst who is employed by or is a consultant to Zacks SCR. The research analyst preparing the research report is resident outside of Canada, and is not an associated person of any Canadian registered adviser and/or dealer. Therefore, the analyst is not subject to supervision by a Canadian registered adviser and/or dealer, and is not required to satisfy the regulatory licensing requirements of any Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and is not required to otherwise comply with Canadian rules or regulations.