Zacks Small-Cap Research

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Tonix Pharmaceuticals

(TNXP-NASDAQ)

TNXP: Insights From Meeting With Management…

Current Recommendation	**Buy**
Prior Recommendation	Neutral
Date of Last Change	11/13/13
Current Price (01/22/14)	$17.82
Target Price	**$26.00**

On Sunday, January 12, 2014, we arrived in San Francisco, CA for the annual JP Morgan Healthcare Conference, as well as the parallel Biotech showcase and OneMedForum Conferences. This was the eighth year in a row that we made the trip to San Francisco for these events, which are a must-attend for serious healthcare investors.

During my three days in San Francisco, I conducted 25 one-on-one meetings with various managements of small and mid-cap biotechnology and specialty pharmaceutical companies. Below are some "notes" from our meeting with Tonix Pharmaceuticals.

SUMMARY DATA

52-Week High	**$18.67**
52-Week Low	**$2.50**
One-Year Return (%)	**65.82**
Beta	**4.73**
Average Daily Volume (sh)	**337,208**
Shares Outstanding (mil)	**5**
Market Capitalization ($mil)	**$89**
Short Interest Ratio (days)	**0.78**
Institutional Ownership (%)	**23**
Insider Ownership (%)	**N/A**
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 2013 Estimate	**N/A**
P/E using 2014 Estimate	**N/A**

Risk Level	**High**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue
(In millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	0 A	0 A	0 A	0 A	0 A
2013	0 A	0 A	0 A	0 E	0 E
2014					0 E
2015					10.0 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	-$1.27 A	-$1.79 A	-$1.01 A	-$1.49 A	-$5.58 A
2013	-$0.93 A	-$0.95 A	-$0.87 A	-$0.65 E	-$2.31 E
2014					-$2.15 E
2015					-$0.28 E

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WHAT'S NEW

Tonix Pharmaceuticals (TNXP)
Meeting took place with Dr. Seth Lederman, MD, Chairman & CEO, Leland Gershell, MD, PhD, CFO, and Bruce Daugherty, PhD, Senior Director of Drug Development

Shameless plug time – Tonix Pharmaceutical shares are up 284% from our upgrade to 'Buy' on November 14, 2013. Needless to say, it was a good time for us to meet with the company. However, what we found most interesting is that very little time of our 45 minute meeting was spent on the talking about Fibromyalgia or the current BESTFIT Phase 2b/3 trial. We covered that pretty extensively in our upgrade report. Plus, having just met with management face-to-face in late October 2013 at the American College of Rheumatology (ACR) meeting and talking for over an hour on TNX-102SL and fibromyalgia, we wanted to delve straight into the rest of the pipeline at Tonix. We'll have more to say on BESTFIT later in 2014 when the results are near.

But before we get into the pipeline, we think it is important to highlight exactly why we are now so interested in the rest of the pipeline when our previous upgrade report (only two months ago) made no mention of TNX-102SL in post-traumatic stress disorder (PTSD) or TNX-201 in tension-type headache. It all comes down to cash. Checking the company's most recent SEC filings (see here, here & here), we've learned that Tonix has received $6.8 million in cash over the past month through warrant exercises. This has provided the company with enormous flexibility and the opportunity to move new candidates forward that have previously been placed on hold.

The first of these candidates is TNX-102SL in PTSD. This is the same formulation of sublingual low-dose cyclobenzaprine being used in the company's Phase 2b/3 BESTFIT study. Tonix was previously waiting for support from the U.S. Department of Defense (DOD) before they filed the IND for TNX-102SL in PTSD. However, with new cash on hand, management can now push-forward without DOD support. That's not to say the DOD may not still be involved in the planned Phase 2 trial, but Tonix doesn't have to wait for them. Almost all-things government related were at a stand-still in November and December 2013, so the ability to push-forward alone is huge for Tonix. As for PTSD, there is enormous overlap between Fibromyalgia and PTSD. According to Tonix, 50% of the FM or PTSD patient population meets the criteria for the other disorder. Plus, the manifestations and treatment paradigms are similar, and include disturbed sleep and painkiller abuse and addition.

...Medical & Psychiatric Comorbidity...

Medical	Prevalence	Psychiatric	Prevalence
Chronic Fatigue Syndrome	20-80%	Major Depressive Disorder	62%
Irritable Bowel Syndrome	32-80%	Bipolar Disorder	11%
Temporomandibular Disorder	75%	Panic Disorder	29%
Tension / Migraine Headaches	10-80%	Post-Traumatic Stress Disorder	21%
Chemical Sensitivities	33-35%	Social Phobias	19%
Interstitial Cystitis	13-21%	Obsessive Compulsive Disorder	7%
Chronic Pelvic Pain	18%		

Source: Aaron LA, et al. *BestPract Res Clin Rheumatol.* 2003;17:563-574; & Arnold LM, et al. *J Clin Psychiatry.* 2006;67:1219-1225.

Roughly 3.5% of the U.S. adult population suffers from PTSD. The numbers are shockingly high for U.S. military service personal, a population with high incidence of suicide and opioid addiction. It's a sad and growing problem, and there have been no new approved medications for PTSD in over a decade. Tonix is preparing to start a Phase 2 study of TNX-102SL in PTSD associated with military / combat service in the third quarter 2014. Although management has narrowed the PTSD population, eliminating things like car accidents and sexual assault, the homogenous population should lead to improved data collection. Plus, the growing attention of the U.S. government in this area should eventually lead to grants or additional funding in the future. It's an astute development plan in our view.

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TNX-201 is a pure isomer isometheptene for tension-type headache. Tension-type headache is a different market from migraine headache. We've seen little evidence that triptans work in this indication. Most patients treat with over-the-counter or prescription NSAIDs. Isometheptene has been used in the U.S. for over 50 years as a treatment for headache thanks to its vasoconstricting properties, but is not FDA approved for any indication. The drugs availability is limited to compounding pharmacies. Isometheptene is composed of two isomers, one believed to provide efficacy and the other that provides only side-effects. Tonix strategy is to purify the active isomer and develop TNX-201 through the 505(b)(2) pathway for tension-type headache. A pre-IND meeting with FDA is scheduled for later this quarter.

With Tonix shares up roughly 300% over the past three months, investor have been asking if our $10 price target, established in November 2013 when the shares were just above $4, still holds. Some things to note about the $10 price target however:

- ✓ It incorporated only the opportunity for TNX-102SL in fibromyalgia.
- ✓ Our DCF model included a very aggressive 40% discount rate.
- ✓ Our DCF model assumed additional dilutive financings in 2014.

Given that the company has been able to secure additional cash through warrant exercises (non-dilutive in a sense that these shares were already included in our fully-diluted share count) and diversify beyond just fibromyalgia, we are lowering our discount rate to a more conservative 25%. We've also lowered the fully-dilutive share count figure for 2016 given that the company has been able to secure additional cash and will be able to raise new cash at far less dilutive levels than previously believed. These adjustments increase our price target to $19 per share. As far as the rest of the pipeline, we normally do not include contribution in our valuation models for assets that are pre-IND. However, given that Tonix plans to develop TNX-102SL in PTSD, the same exact drug that is in Phase 2/3 for fibromyalgia, and the overlap between PTSD and FM is so clear and large, we believe it warrants inclusion in our model. Tonix plans a Phase 2 study with TNX-102SL to start in the second quarter 2014. Success from this trial will add another $6 to our price target. Therefore, we believe Tonix could be worth $25 by the end of 2014.

PROJECTED FINANCIALS

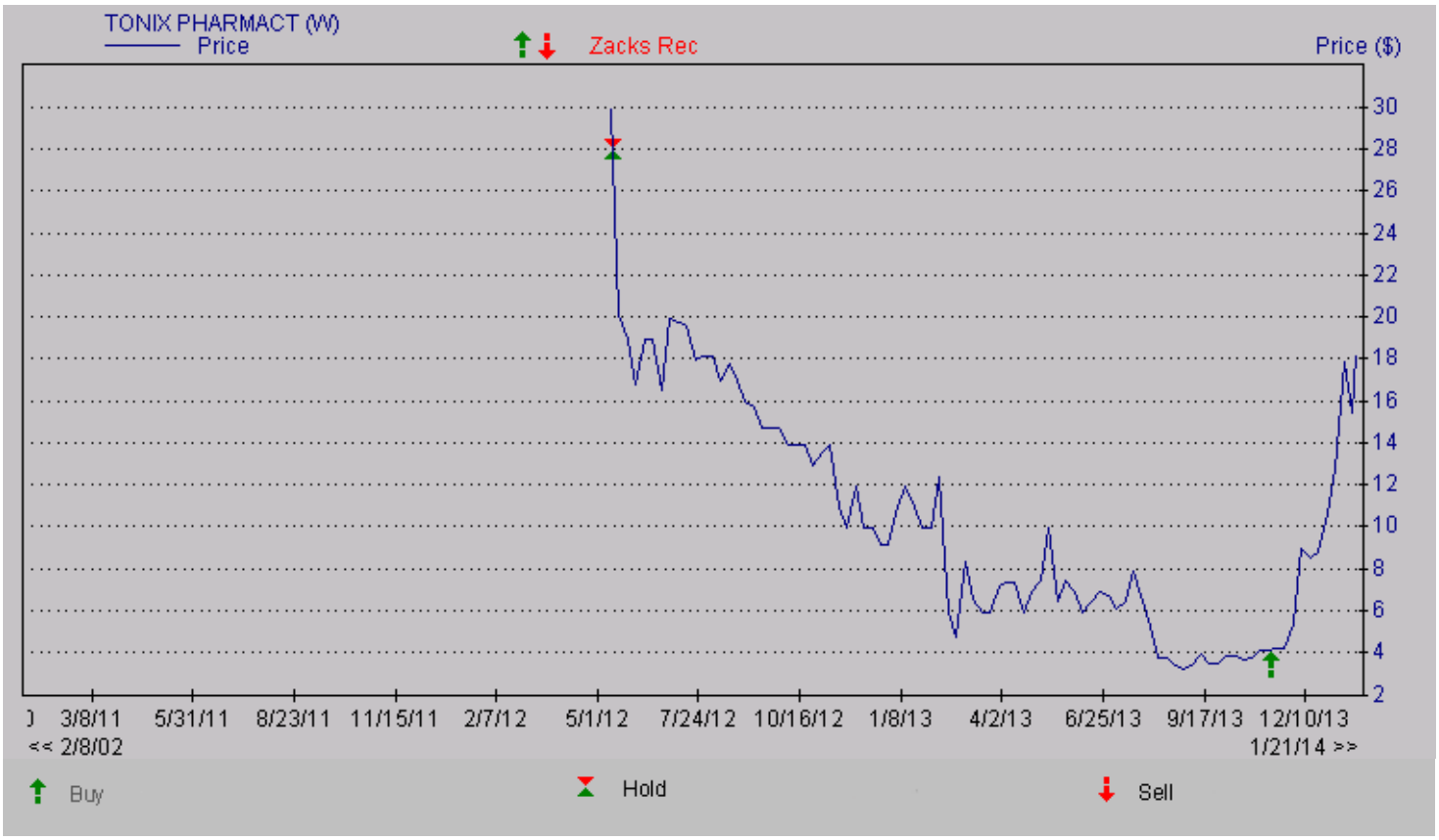
Tonix Pharma
Income Statement

Tonix Pharmaceuticals	2011 A	2012 A	Q1 A	Q2 A	Q3 A	Q4 E	2013 E	2014 E	2015 E
TNX-102SL (FM)	$0	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-	-	-	-
TNX-102SL (PTSD)	$0	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-	-	-	-
Pipeline	$0	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-	-	-	-
Research & Collaborations	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$10.0**
YOY Growth	-	-	-	-	-	-	-	-	-
Total Revenues	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$10.0**
YOY Growth	*100.0%*	-	-	-	-	-	-	-	-
CoGS	$0	$0	$0	$0	$0	$0	$0	$0	$0.0
Product Gross Margin	-	-	-	-	-	-	-	-	-
R&D	$1.2	$2.6	$0.7	$0.9	$1.6	$1.8	$5.1	$5.0	$5.0
% R&D	-	-	-	-	-	-	-	-	-
SG&A	$2.2	$4.1	$1.3	$1.1	$1.5	$1.3	$5.2	$5.0	$5.5
% SG&A	-	-	-	-	-	-	-	-	-
Operating Income	($3.4)	($6.7)	($2.0)	($2.1)	($3.1)	($3.1)	($10.3)	($10.0)	($0.5)
Operating Margin	*#DIV/0!*	-	-	-	-	-	-	-	-
Interest & Other Income	($0.1)	($2.8)	$0.0	$0.0	$0.0	($0.1)	($1.5)	($1.2)	($1.0)
Pre-Tax Income	($3.5)	($9.4)	($2.0)	($2.1)	($3.1)	($3.2)	($11.8)	($11.2)	($1.5)
Taxes & Other	$0	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	($3.5)	($9.4)	($2.0)	($2.1)	($3.1)	($3.2)	($11.8)	($11.2)	($1.5)
Net Margin	*#DIV/0!*	-	-	-	-	-	-	-	-
Reported EPS	**($3.24)**	**($5.58)**	**($0.93)**	**($0.95)**	**($0.87)**	**($0.65)**	**($2.31)**	**($2.15)**	**($0.28)**
YOY Growth	*#REF!*	*72.3%*	-	-	-	-	*-58.6%*	*-6.7%*	*-86.9%*
Basic Shares Outstanding	1.07	1.69	2.16	2.20	3.54	4.90	5.10	5.20	5.30

Source: Zacks Investment Research, Inc. *Jason Napodano, CFA*

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