

Nutra Pharma Corporation (OTC: NPHC), Target Price: \$0.53

We initiate coverage on Nutra Pharma Corporation (OTC: NPHC, "Nutra Pharma") with a price target of \$0.53 per share. Founded in 2000, Nutra Pharma specializes in developing and commercializing products and technologies for the management of pain, neurological disorders, and autoimmune disorders. Nutra Pharma is pursuing a two-pronged strategy in which its clinical drug development is supported by a portfolio of revenue-generating over-the-counter (OTC) pain products headlined by chronic pain reliever Nyloxin®. Longer term, the company is pursuing new therapeutic products targeting multi-billion dollar opportunities, including: Multiple Sclerosis (MS), Human Immunodeficiency Virus (HIV), Adrenomyeloneuropathy (AMN), and Rheumatoid Arthritis (RA), among others. Nutra Pharma's commercial and pre-clinical product portfolio is supported by attractive intellectual property that includes 21 patents and pending patents, six published studies and review articles, and three completed Phase I / Phase II clinical trials, in addition to 12 FDA-registered OTC products in the United States and regulatory clearance for Nyloxin® in India. The company has piqued our interest after demonstrating impressive growth over the last nine months by focusing on growing its expanding portfolio of high margin OTC alternative pain products.

INVESTMENT HIGHLIGHTS

Focus on OTC product expansion driving growth

We have been impressed Nutra Pharma's portfolio of OTC alternative pain products and its lead product, Nyloxin® for moderate and severe chronic pain. Nyloxin® is an effective, non-addictive, and non-opiate alternative to NSAIDs for the treatment of chronic pain, utilizing Asian cobra venom as its active ingredient. Albeit from a small base, Nyloxin® sales have grown rapidly since the company engaged Lumaxa to carry the product in its network marketing channels. Lumaxa began a commercial campaign for Nyloxin® last June and began live sales meetings in October 2014, helping Nutra Pharma generate its highest level of revenues since 2010 – with sales growth of 467% from 2013 to 2014 and over 100% from 1Q14 to 1Q15. Currently Lumaxa is carrying Nutra Pharma's OTC products in a network of over 3,000 active distributors, and management expects this figure to rise to 10,000 distributors by the beginning of 2016E, with the majority of distributors receiving auto-shipments of \$100 per month.

Large market opportunity in OTC and therapeutic portfolios

In the short run we expect Nutra Pharma's results to be driven by the performance of Nyloxin®, which management estimates is targeting a \$500mn market opportunity for OTC alternative pain management. Longer term, the company is developing several pre-clinical compounds, which are in various stages of development and have the potential to significantly expand its market opportunity. Funding permitting, Nutra Pharma will initially seek to resume development of **RPI-78M** for MS and AMN, and **RPI-MN** for HIV and general anti-viral applications. Over 2.5mn people have been diagnosed with MS, which management estimates is a 16.7Bn annual market, and RPI-78M also has potential applications for AMN, a neurological disorder marked by spastic paraplegia and a peripheral neuropathy that is estimated to affect 30,000 people in the United States for which there are currently no therapeutics. RPI-MN has been shown to inhibit replication in certain drug-resistant strands of HIV, potentially opening up an avenue for the company to target this \$15.1Bn annual drug market for a disease affecting over 34mn people worldwide.

Initiate coverage with a price target of \$0.53

Our analysis indicates a fair value estimate of \$0.53 per share (detailed on page 10), for Nutra Pharma. If achieved, the target represents potential upside of 152.4% from the recent price of \$0.21. We view Nutra Pharma as an intriguing speculative company with an attractive two-pronged strategy

for commercializing Asian cobra venom into 1) a growing portfolio of revenue-generating OTC alternative pain products headlined by Nyloxin® and 2) developing a promising line of clinical therapeutic candidates for as potential treatments for MS, HIV and AMN, among others.

Stock Details (7/6/2015)

OTC:	NPHC
Sector / Industry	Healthcare / Pharmaceuticals
Price target	\$0.53
Recent share price	\$0.21
Shares o/s (mn)	39.7
Market cap (in \$mn)	8.3
52-week high/low	\$0.43 / \$0.05

Source: Bloomberg, SeeThruEquity Research.

Key Financials (\$mn unless specified)

	FY14	FY15E	FY16E
Revenues	0.6	0.8	4.4
EBITDA	(2.2)	(1.2)	0.0
EBIT	(2.2)	(1.2)	(0.0)
Net income	(2.5)	(1.5)	(0.3)
EPS (\$)	(0.08)	(0.04)	(0.01)

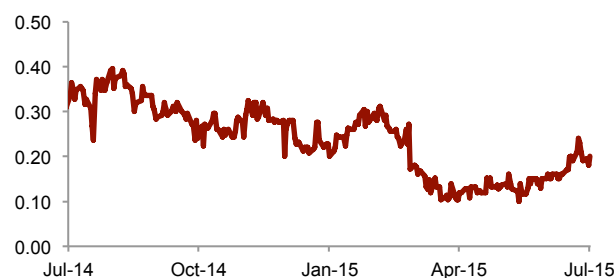
Source: SeeThruEquity Research

Key Ratios

	FY14	FY15E	FY16E
Gross margin (%)	80.8	78.2	77.0
Operating margin (%)	(370.4)	(150.6)	(0.0)
EBITDA margin (%)	(370.4)	(148.6)	0.5
Net margin (%)	(426.1)	(178.7)	(5.7)
P/Revenue (x)	14.0	10.2	1.9
EV/EBITDA	NM	NM	NM
EV/Revenue (x)	16.8	12.1	2.2

Source: SeeThruEquity Research

Share Price Performance (\$, LTM)



Source: Bloomberg

SUMMARY TABLE

Figure 1. Summary Table (As of July 2, 2015)

Share data		B/S data (As of fiscal 1Q15)		Key personnel:	
Recent price:	\$0.20	Total assets:	0.5mn	Chairman & CEO:	Rik J Deitsch
Price target:	\$0.53	Total debt:	1.0mn		
52-week range:	0.43 / 0.05	Equity:	(3.5mn)		
Average volume:*	79.592	W/C:	(3.6mn)		
Market cap:	\$7.9mn	ROE:	NM		
Book value/share:	(\$0.09)	ROA:	NM		
Cash/share	\$0.00	Current ratio:	0.1		
Dividend yield:	0.00%	Asset turnover:	0.9		
Risk profile:	High / Speculative	Debt/Cap:	85.1%		

* three month average volume (number of shares)

Estimates					Valuation	
FY December	Rev (\$mn)	EBITDA (\$mn)	EPS (\$)	P/Rev (x)	EV/Rev (x)	P/E (x)
2013	0.1	(2.4)	(0.23)	75.7x	91.3x	NM
2014	0.6	(2.2)	(0.23)	13.4x	16.1x	NM
1Q15E	0.1	(0.3)	(0.01)	16.4x	19.8x	NM
2Q15E	0.2	(0.3)	(0.01)	13.2x	15.9x	NM
3Q15E	0.3	(0.3)	(0.01)	7.9x	9.6x	NM
4Q15E	0.3	(0.3)	(0.01)	6.6x	8.0x	NM
2015E	0.8	(1.2)	(0.04)	9.7x	11.7x	NM
2016E	4.4	0.0	(0.01)	1.8x	2.2x	NM
2017E	6.8	0.3	(0.00)	1.2x	1.4x	NM
2018E	9.4	1.7	0.03	0.8x	1.0x	7.5x

Source: SeeThruEquity Research

INVESTMENT THESIS

We initiate coverage on Nutra Pharma Corporation (OTC: NPHC, "Nutra Pharma") with a price target of \$0.53 per share. Founded in 2000, Nutra Pharma is a life sciences company specializing in the acquisition, licensing, and commercialization of pharmaceutical products and technologies for the management of neurological disorders, autoimmune disorders, pain and infectious diseases. Nutra Pharma is pursuing a two-pronged strategy in which the company's clinical drug development is bolstered by a portfolio of revenue-generating over-the-counter (OTC) pain products led by chronic pain reliever Nyloxin® and Pet Pain-Away for companion animals. Longer term, the company is pursuing new therapeutic products that will potentially target several multi-billion dollar opportunities, including: Multiple Sclerosis (MS), Human Immunodeficiency Virus (HIV), Adrenomyeloneuropathy (AMN), Amyotrophic Lateral Sclerosis (ALS or Lou Gehrig's disease) and Rheumatoid Arthritis (RA). Nutra Pharma's development is supported by 21 patents and pending patents, six published studies and review articles, and three completed Phase I / Phase II clinical trials, in addition to 12 FDA-registered OTC products in the United States and regulatory clearance for Nyloxin® in India.

Several potential catalysts ahead for Nutra Pharma following a year of progress

In our view, Nutra Pharma has taken nice strides turning the business around by driving its best sales since 2010 and improving its capital structure and cost base. Over the last year, the Coral Springs, FL-based company has reduced its debt outstanding and consolidated shares to bring the share count to 39.7mn, a number in line with its size and development stage. On the cost side, the company



has made significant progress by bringing fulfillment in-house to its Plantation, FL facility, while reducing legal and accounting costs, among others operating expenses. We see several potential positive events for Nutra Pharma over the next twelve months, as the company is in the process of expanding Nyloxin® distribution at home and internationally, with expansions announced thus far including Canada, India, and China. We also expect Nutra Pharma to expand the SKU count in its family of pain products, beginning with a new military strength version of Nyloxin® slated for launch during the second half of the year, as well as a capsule formulation. As a result of these efforts, Nutra Pharma's management team has stated that it is targeting profitability within twelve months, which, if accomplished, would be a key milestone for the company.



On the clinical development side of the business, Nutra Pharma is targeting a market opportunity of over \$10Bn with intriguing development pipeline, which presently consists of three novel compounds: **RPI-78M** for MS, AMN, MG, and ALS; **RPI-MN** for HIV and general anti-viral applications, **RPI-78** for pain and arthritis. The company recently filed an Orphan Drug Application with the FDA for its lead clinical candidate, RPI-78M for autoimmune and neurologic disorders, and we expect a continued flow of pre-clinical updates for the company's pipeline over the next 12-18 months.

Intriguing portfolio of OTC chronic pain products to drive revenue in short term

Nutra Pharma's two-pronged go-to-market strategy initially targets the multi-billion dollar market for over-the-counter chronic pain management. Pain is the single most common reason patients seek medical care, accounting for over half of all physician visits in the United States each year, and there is a growing need for non-addictive, non-opiate alternatives for people for whom over-the-counter NSAIDs are ineffective. Nutra Pharma management estimates the market opportunity for alternative OTC chronic pain management at \$500mn in sales per annum.

Nutra Pharma's OTC pain products are led by Nyloxin®, which is available in an oral spray and topical gel formulations, with tablets expected in the next twelve months. Nyloxin® is a safe, non-narcotic and non-addictive pain reliever clinically demonstrated to manage stage 2 and stage 3 pain chronic pain while not affecting cognitive function. Nyloxin's active ingredient is cobra venom, which has been shown in clinical studies to provide as much as 70% of chronic pain patients with some anti-inflammatory and analgesic benefits. Nutra Pharma currently offers Nyloxin® in everyday strength and maximum strength formulations, with plans for the commercial launch of a military strength formulation during the second half of 2015. Nyloxin® is a long-lasting, opiate-free, acetaminophen-free pain management product targeted toward consumers not well-served by current pain management products for treating back pain, neck pain, headaches, joint pain, migraines, arthritis pain, repetitive stress pain, and neuralgia.



Expanding distribution network and international presence to drive growth

After initially marketing Nyloxin through online channels and various retailers, last year Nutra Pharma engaged Lumaxa to drive market penetration by distributing the products domestically and internationally through its proprietary network marketing channels. Lumaxa began a commercial campaign for Nyloxin® last June and began live sales meetings in October 2014, helping Nutra Pharma generate its highest level of revenues since 2010. Currently Nutra Pharma has a network of over 3,000 active distributors through Lumaxa. The company expects the growth to continue into 2016E, expecting to reach a monthly run rate of \$1mn assuming the network grows to 10,000 distributors receiving \$100 autoships per month.



The company has also announced attractive international expansion, with commercial distribution expected to commence in India during 2Q15, and planned expansions to China, Latin America, Europe and Canada. After India, we expect the next commercial market for Nutra Pharma to be China, which could take place as early as 4Q15. Indeed, Nutra Pharma has engaged the Vancouver Commodities Group (VCG) to assist in identifying and vetting potential Chinese distributors for Nyloxin®, which was accepted by the China International Exchange and Promotive Association for Medical and Healthcare (CPAM). We expect the company to move quickly with VCG and CPAM to build Nyloxin® distribution in China.

Significant potential for growth from entry into large companion animal OTC pain market

Nutra Pharma also offers an OTC chronic pain management product for companion animals, Pet Pain-Away™, which began shipping in December. With over 95mn cats and 83mn dogs in the United States, Americans spend over \$58Bn on companion animals each year. Within that, the OTC pain management category in companion animals is estimated to be over \$200mn per year. Pet Pain-Away stands to benefit from targeting the market for arthritis and joint pain and hip dysplasia prevalent in companion animals with its all natural, non-opiate, non-addictive, NSAID-free formulation, which initially comes in a hypoallergenic chicken flavor. The company also has an equine pain management product in development, which is expected to launch commercially by the end of 2015.



Clinical development portfolio targets a \$10Bn+ long-term opportunity

Nutra Pharma intends to leverage potential future revenues and profits in its OTC chronic pain products to drive development of its clinical drug portfolio, with an aim to develop the clinical products to the point where it can strike an attractive partnership with a larger pharmaceutical company to fund the costly end stages of regulatory clearance and commercialization. Through its subsidiary, ReceptoPharm, the company has an intriguing pipeline of products in various stages of development targeting a combined market of over \$10Bn, which is currently focused on three novel compounds: **RPI-78M** for Multiple Sclerosis (MS), Adrenomyeloneuropathy (AMN), Myasthenia Gravis (MG), and Amyotrophic Lateral Sclerosis (ALS); **RPI-MN** for Human Immunodeficiency Virus (HIV) and general anti-viral applications; and **RPI-78** for pain and rheumatoid arthritis (RA).

Initial focus on RPI-78M and RPI-MN

We see the initial target markets for Nutra Pharma's drug pipeline as HIV, MS, and AMN. The company has completed two trials of RPI-78M for AMN, which is a neurological disorder characterized by spastic paraplegia and a peripheral neuropathy that is estimated to affect 30,000 people in the United States with no known therapeutics. The trials were conducted at the Charles Dent Metabolic Unit located in London, England. The studies showed important safety data and the company has planned a Phase III study to demonstrate efficacy of RPI-78M to treat AMN, which management estimates to be a \$400mn+ opportunity for the company.

We are also intrigued by the potential efficacy of RPI-78M for MS, an autoimmune disease that primarily causes central nervous system problems. MS is a large and growing disease for which the current standard of care has proven insufficient for many patients. According to the Accelerated Cure Project for Multiple Sclerosis, a national nonprofit organization, 400,000 Americans are affected by MS with 10,000 new cases diagnosed each year. Globally, the number of people affected by MS is nearly 2.5mn, and management has

pegged the global market for MS drugs at \$16.7Bn. Although the drug candidate is clearly in the early stages of development, RPI-78M has shown encouraging data in animal models. According to the company, in one study conducted in August 2007 by subsidiary ReceptoPharm, all members of an untreated animal control group developed signs of disease with different levels of paralysis/muscle weakness. A similar group in the August 2007 study treated with RPI-78M showed no disease in 90% of the animals in both acute and chronic applications of the test – with no toxicities reported though the animals which received doses the equivalent of 280 times a human dose.

Source: Company filings, investor materials

Nutra Pharma's second drug candidate, RPI-MN, has demonstrated the ability to inhibit replication of highly drug-resistant strains of HIV isolates in testing conducted by Dr. Juan Lama of the La Jolla Institute for Molecular Medicine in San Diego, CA, and a separate phase I study conducted at Cure AIDS Now of Miami, FL, confirmed safety, tolerability and provided preliminary evidence of efficacy. Management sees the HIV therapeutic drug market as having \$15.1Bn in annual sales, representing a significant potential market opportunity.

Source: Company filings, investor materials

Review of pipeline development per indication and ongoing strategy

As illustrated in the following graphic, the company has completed Phase I and preclinical studies on a number for a number of indications, with planned Phase II / Phase III activities for its lead candidate RPI-78M. At present Nutra Pharma has limited investment in further clinical activity pending fund raising, though the company recently filed an Orphan Drug Application with the FDA for its lead clinical candidate, RPI-78M for autoimmune and neurologic disorders, and we expect a continued flow of pre-clinical updates for the company's first two clinical products, RPI-78M and RPI-MN over the next 12-18 months, funding permitting.



Source: Company investor materials

We note that Nutra Pharma is unlikely to attempt to take these candidates through final development and commercialization. Rather, we expect the company to seek opportunistic early licensing deals with large pharmaceutical companies with a goal of securing up-front and milestone payments, as well as back-end royalties upon approval and marketing.

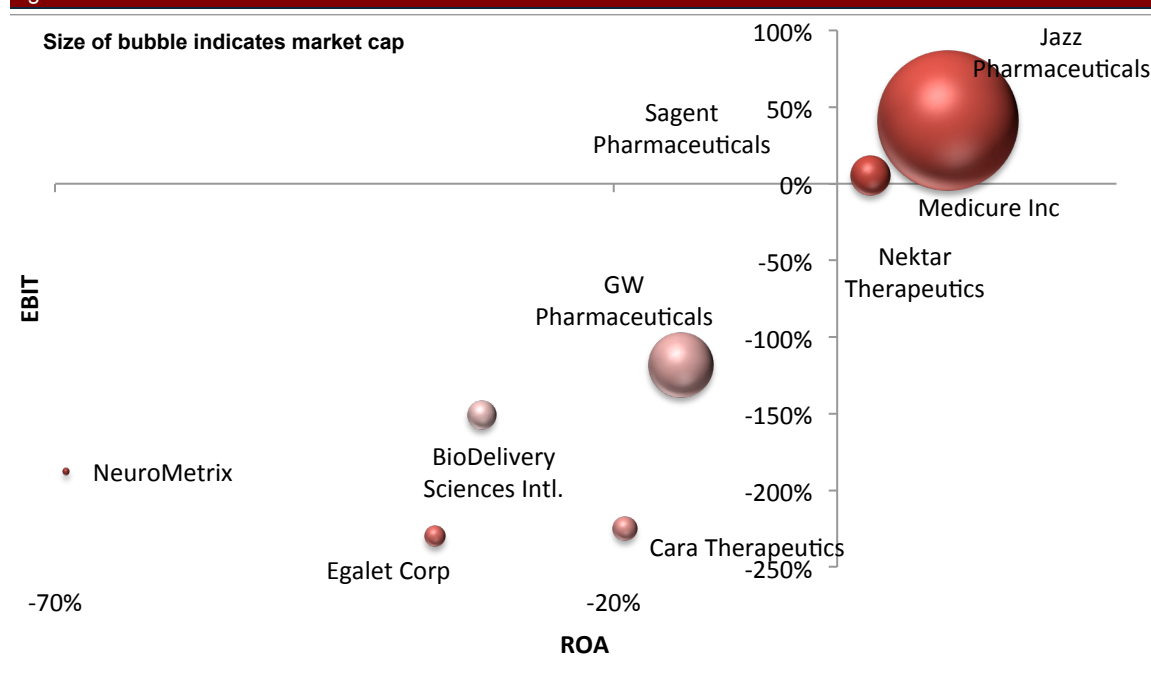
COMPETITIVE LANDSCAPE

Nutra Pharma operates in the OTC pain management and biopharmaceutical industries, which are large and competitive markets. The biotechnology research and development field is intensely competitive and characterized by high regulatory barriers, rapid innovation-driven change, and a large number of large market participants with significant financial and scientific resources. In these markets, we expect Nutra Pharma to compete by initially focusing on developing its most promising candidates, RPI-78M and RPI-MN, through partnerships or alliances with research institutions and large pharmaceutical companies. The company identified the following companies as its primary competitors in the biopharmaceutical marketplace: Amgen, Sanofi-Aventis, Biogen-Idec, Cephalon, Genetech, Genzyme, Novartis, Bayer and Regeneron, among others.

The company also competes with other developers of venom-based drugs. The use of venoms as therapeutics is well-established, and the company sees its main competitors as companies engaging in the development of protein-based neurotoxins as therapeutics, including venoms from snakes and other reptiles. These competitors include Pentapharm, Knoll Pharmaceutical (Abbott Labs), Bristol-Meyers Squibb, Medicure, Millennium Pharmaceutical, Amylin Pharmaceuticals, and Elan Pharmaceuticals, among others. While most of these companies are using anticoagulant enzymes from viperids (adders and rattlesnakes), there are competitors using cobra venom, such as Keluoqu, which is uses cobrotoxin as its active ingredient for treating and controlling pain.

In the following graphic we examined key size and profitability metrics for a group of publicly traded companies with a focus on companies also seeking to develop or market alternative, non-addictive treatments for pain, such as GW Pharmaceuticals, Cara Therapeutics, and NeuroMetrix, among others. We also included companies such as Medicure, which are using venom as the active ingredient in their drugs – Medicure's *aggrastat* uses viper venom, for example.

Figure 2. ROA vs. EBIT– NPHC Peers



Source: Thompson Financial, Company filings, SeeThruEquity Research

FINANCIALS AND FUTURE OUTLOOK

Revenue drivers / forecast

We see Nutra Pharma as being in the early stages of a turnaround, which appears to be driven by increased distribution of its OTC chronic pain products and specifically Nyloxin®. Revenues and gross profit dollars more than doubled from 1Q14 to 1Q15, following a trend of growth established in 2014. In 2014, Nutra Pharma's management made the strategic choice to focus on the execution of its revenue-generating OTC pain products, and the result was revenues rising by 467.1% YoY to reach \$0.6mn – the company's highest revenue level since 2010.

Our model has assumed a continuation of growth in Nutra Pharma's OTC retail products in 2015E and beyond. What has moved the needle for the company so far has been results from the company's network marketing partnership with Lumaxa (formerly MyNyloxin.com), which covers the Nyloxin® and Pet Pain-Away product lines. Lumaxa began its commercial campaign selling Nyloxin® in 2H14. We expect annual growth in this product line to continue throughout the year as the relationship with Lumaxa scales and Nutra Pharma releases more OTC products – the company just launched Pet Pain-Away for companion animals in December and should be introducing a military grade Nyloxin® formulation in 3Q15 as well as a tablet Nyloxin® formulation by the end of the year. Nutra Pharma should also be releasing an equine product in the next year, and will re-acquire rights to Cobroxin®, a predecessor product to Nyloxin® targeting arthritis and repetitive stress pain. During 2016, Nutra Pharma expects the number of Lumaxa distributors receiving \$100 monthly shipments to rise to 10,000, which would equate to the company reaching an annual run rate of \$12mn in gross receipts – which we estimate would translate into \$4.6mn of high margin revenue for Nutra Pharma.

The other significant catalyst that should drive growth in OTC product sales is international expansion. We have modeled international shipments to begin in 2015, with 2016 being the first year of measurable international revenues stemming from India and China. Nutra Pharma has received regulatory clearance to market Nyloxin® in India, and has signed an agreement with Indian importer S.Zhaveri Pharmakem to begin a nationwide rollout. Concurrently the company has been working with Vancouver Commodities Group (VCG) to begin vetting potential distributors in China for Nyloxin® – the company received notification of the acceptance of Nyloxin® by the China International Exchange and Promotive Association for Medical and Healthcare (CPAM) at the end of April.

Our model forecasts revenue to grow by 68.1% from \$0.6mn in 2014 to \$1.0mn in 2015E, before accelerating to reach \$4.4mn in 2016E. The increase in 2016E assumes the company is able to meet the goal of reaching 10,000 Lumaxa distributors receiving \$100 in monthly autoships during the first half of the year, and also considers \$0.5mn in international revenues stemming mainly from India. We have assumed relatively small initial sales levels for international OTC and pet product sales, given that they are just beginning. These are potential opportunities for the company to outperform our top line estimates, if it can also achieve the aggressive growth assumptions in its Lumaxa business.

On the clinical development side of the business, our analysis has assumed that Nutra Pharma is able to raise capital sufficient to pursue the next stage of clinical development for its two lead candidates, RPI-78M for MS and AMN, and RPI-MN for HIV. The company is targeting 2H17E as a time frame for a potential license deal for MS and HIV, which would likely be preceded by a Phase II study for each indication. We have assumed initial revenues from these pursuits in 2018E, with revenues growing from a small base through the end of our forecast period in 2022E assuming milestone payments, upfront fees and eventually royalties. Overall, our model forecasts aggressive growth driven by the assumptions outlined above, with revenues reaching \$22.2mn by 2022E. The following table outlines our assumptions by segment through the end of 2018E.

Figure 3. NPHC Estimated Revenue Drivers

Segment Estimates (000)	2015E	2016E	2017E	2018E
OTC Domestic	776	3,543	4,819	6,216
OTC International	90	500	1,400	1,806
Animal Products	134	400	540	637
License & Royalties	0	0	0	750
TOTAL	1,000	4,443	6,759	9,409

Business Mix (%)	2015E	2016E	2017E	2018E
OTC Domestic	78%	80%	71%	66%
OTC International	9%	11%	21%	19%
Animal Products	13%	9%	8%	7%
License & Royalties	0%	0%	0%	8%
Total	100%	100%	100%	100%

Source: SeeThruEquity Research, estimates in 000s USD

Margins/Expenses

Nutra Pharma management has articulated a goal of achieving profitability in the next twelve months, which would suggest mid-2016E. The company has high gross margins, which have been hovering around the 80% level. We note that while the company receives cash from OTC sales, it only recognizes revenue net of distributor commissions. Given management's guidance we have assumed Nutra Pharma achieves profitability during 2016E, with approximately breakeven operating margins for the full year. We have modeled Nutra Pharma to invest approximately \$3m in development costs over 2015E-2017E to fund applications for orphan drugs as well as clinical studies prior.

We have assumed moderate profitability in 2016E, reflecting these investments, before strong expansion of operating margins throughout the remainder of our forecast. Our model estimates operating margins move from (150.6%) in 2015E to (0.0%) in 2016E, before reaching positive territory in 2017E at 2.5% and expanding to 15.5% in 2018E.

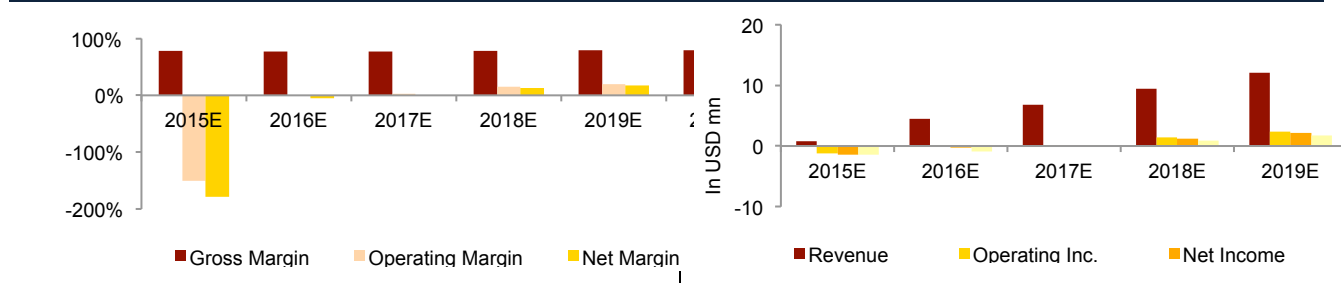
Nutra Pharma had \$29.4mn in federal net operating loss tax carry forwards at the end of 2014, so we have not assumed full taxation rates in our forecast. For 2015E and 2016E, we project GAAP EPS of (\$0.04) and (\$0.01), respectively, assuming average shares outstanding of 41.0mn in 2015E and 45.0mn in 2016E.

Balance Sheet & Financial Liquidity

We see the balance sheet and financial liquidity as a key risk for Nutra Pharma, and we expect the company will need to raise capital during calendar 2015E and calendar 2016E to fund ongoing operations and clinical development until its expanding portfolio of OTC pain relievers is able to generate sufficient revenue and profits to fund pharmaceutical development. We note that although the company has made progress reducing debt outstanding on the balance sheet, Nutra Pharma ended 1Q15 with current assets of just \$0.48mn and current liabilities of \$4.03mn. The company used \$0.12mn in cash from operating activities during 1Q15, and ended the quarter with an accumulated deficit of (\$44.9mn).

Nutra Pharma has historically relied on loans from its Chief Executive Officer, Rik Deitsch, to fund operations. The company received a going concern opinion from its independent auditor, Liggett, Vogt & Webb, P.A, along with its financial statements. The company stated in its 2014 10-K that it needs to raise approximately \$0.6mn to fund operations in 2015. We have assumed the company will need to raise at least \$2.0mn during 2015E and 2016E to support growth initiatives. Mitigating this risk somewhat, the Nutra Pharma announced on June 30, 2015, that it had engaged Pickwick Capital Partners, LLC to provide investment banking and strategic corporate planning services.

Figure 4. Key Performance Indicators of NPHC, FY15E-19E



Source: Company filings, SeeThruEquity Research

VALUATION

We utilize discounted cash flow (DCF) analysis and peer group multiples to value Nutra Pharma. Nutra Pharma is in the early stages of commercializing its OTC pain products, and consequently we see the potential for rapid percentage growth if the company meets its operating plan, which comprises rapid expansion of the number of distributors carrying its product via the Lumaxa network, new products, and international expansion into India and China – two markets with large potential. Our blended valuation, which combines the DCF and peer group methodologies, yields a fair value of \$0.53 per share. Relative to the recent price of \$0.21, our target of \$0.53 represents upside potential of 152.4%.

DCF

We expect Nutra Pharma will use cash from 2015E to 2016E as the company's growth initiatives take time to cover operating expenses. We also expect expenses will rise from 1Q15 levels to support growth, and that the company will be investing in working capital if it is to meet its growth plans. We have modeled Nutra Pharma to begin generating recurring free cash flow after capital spending beginning in fiscal 2018E as the company benefits from forecasted growth and the 80% gross margins characteristic of its OTC products.

Our model projects free cash use of (\$1.5mn) in FY15E and (\$0.9mn) in FY16E. We do not expect the company to achieved profitable net income until FY17E, but have modeled the company at roughly breakeven from a cash flow perspective in 2017E, before generating positive cash flow of \$0.9m in 2018E. If Nutra Pharma meets the projections in our model, 2018E would be an inflection year, after which the company would experience rising free cash flows due to the high earnings leverage from its growth.

We discounted cash flows at a weighted average cost of capital of 17.2% and assumed a terminal growth rate of 3% at the end of FY2022E to arrive at an enterprise value of \$19.8mn. We adjusted for the company's modest cash and \$1.6mn of debt outstanding, arriving at a fair value of \$0.46 per share.

Figure 5. Discounted Cash Flow Analysis

\$000	FY15E	FY16E	FY17E	FY18E	FY19E	FY20E	FY21E	FY22E
EBIT	(1,237)	(1)	169	1,458	2,363	3,882	5,550	7,770
Less: Tax	0	0	0	0	213	516	788	1,243
NOPLAT	(1,237)	(1)	169	1,458	2,150	3,366	4,762	6,527
Changes in working capital	(210)	(875)	(30)	(390)	(230)	(463)	(460)	673
Depreciation & Amort.	16	25	125	250	367	500	686	820
Capex	(26)	(50)	(274)	(400)	(526)	(633)	(850)	(1,000)
FCFF	(1,456)	(901)	(10)	918	1,761	2,770	4,138	7,020
Discount factor	0.93	0.80	0.68	0.58	0.49	0.42	0.36	0.31
PV of FCFE	(1,358)	(717)	(7)	532	871	1,169	1,490	2,156
Sum of PV of FCFE								4,136
Terminal cash flow								50,958
PV: Terminal cash flow								15,653
Enterprise value								19,789
Less: Debt								1,629
Add: Cash								0
Equity value								18,160
Outstanding shares (mn)								39.7
Fair value per share (\$)								0.46

Summary conclusions		Key assumptions	
DCF FV (\$ per share)	0.46	Beta	1.5
Recent price (\$ per share)	0.21	Cost of equity	18.5%
Upside (downside)	119.0%	Cost of debt (post tax)	10.8%
WACC	17.2%	Terminal Growth Rate	3.0%

Source: SeeThruEquity Research

Figure 6. Sensitivity of Valuation – WACC vs. Terminal Growth Rate

		WACC (%)				
Terminal growth rate (%)		16.2%	16.7%	17.2%	17.7%	18.2%
	2.00%	0.49	0.46	0.43	0.40	0.38
	2.50%	0.50	0.47	0.44	0.41	0.39
	3.00%	0.52	0.49	0.46	0.43	0.40
	3.50%	0.54	0.51	0.47	0.44	0.41
	4.00%	0.57	0.53	0.49	0.46	0.43
	4.50%	0.59	0.55	0.51	0.48	0.44

Source: SeeThruEquity Research

Peer Group Valuation

We also valued Nutra Pharma using a peer group valuation. Our peer group valuation examines the company relative to a group of peer companies on the basis of estimated sales in relation to value. We selected a peer group of companies whose businesses pursuing alternative treatments for chronic pain management, such as GW Pharmaceuticals (GWPH), NeuroMetrix (NURO), and Zogenix (ZGNX). Many of these companies are also seeking to develop anti-addictive alternatives to NSAIDs for pain therapies. We also included companies seeking to develop medications from venom, such as Medicure (MPH.V), which markets *aggrastat*, derived from viper venom.

We note that there is a wide range of multiples in the peer group, though it is clear that companies with promising clinical pipelines targeting the massive market for pain can command a significant market capitalization. Although we have excluded them from the calculation of our price target so that we would not skew the results, we note the large valuation multiples for Cara Therapeutics and GW Pharmaceuticals – both of which are pursuing new chronic pain therapies.

We arrived at a fair value range of \$0.53 to \$0.58 per share based on FY16E P/Sales and EV/Revenue multiples of selected peers. We considered an EV/Revenue target multiple of 5.1x, which was in line with the average multiple of the group (excluding GWPH and CARA). Similarly, for Price / Revenue, we used a target multiple of 5.2x our 2016E revenue estimate of \$4.4mn, in line with the peer group.

Figure 7. Comparable Valuation (Data as of 7/2/15)

Company	Mkt cap (\$ mn)	EV/Revenue(x)		Price/Sales (x)	
		FY15E	FY16E	FY15E	FY16E
NeuroMetrix Inc	22	1.9x	1.2x	2.3x	1.4x
Nektar Therapeutics	1,564	6.6x	8.6x	6.7x	8.7x
Medicure Inc.	35	2.5x	2.2x	2.5x	2.2x
Sagent Pharmaceuticals, Inc.	807	2.1x	1.8x	2.3x	2.0x
Jazz Pharmaceuticals	10,859	8.2x	7.1x	8.0x	6.9x
Cara Therapeutics Inc.	290	62.2x	46.0x	80.7x	59.8x
GW Pharmaceuticals plc	2,264	47.1x	54.1x	48.1x	55.2x
BioDelivery Sciences International	408	4.6x	5.1x	5.3x	6.0x
Zogenix, Inc.	245	15.0x	12.9x	14.1x	12.2x
Pain Therapeutics	46	N/A	2.8x	N/A	3.1x
Egalet Corporation	215	14.0x	4.2x	14.4x	4.3x
Average		6.9x	5.1x	7.0x	5.2x
NPHC	8	9.6x	2.2x	7.9x	1.8x
<i>Premium (discount)</i>		39.4%	(57.7%)	14.2%	(65.5%)

Source: Bloomberg, SeeThruEquity Research

RISK CONSIDERATIONS

Financial Solvency

We see access to new capital to fund growth as a key risk for Nutra Pharma. The company has limited revenues, which are not sufficient to fund ongoing operations or clinical drug development required to support anticipated growth at this time. Even considering management's aim to reach profitability within twelve months, we estimate the company will need to raise capital during 2015E and 2016E. In its 2014 10-K filing, Nutra Pharma stated that it would require at least \$0.6mn to support operations for calendar 2015. In order to achieve the growth we think is possible for the company, however, we anticipate Nutra Pharma will need to raise at least \$2mn, and potentially may need to raise more than \$2mn in light of the company's negative working capital position of (\$3.6mn) at the end of 1Q15. On June 30, 2015, the company announced that it had engaged Pickwick Capital Partners for strategic corporate planning and investment banking services, potentially mitigating this risk. The assumptions in our forecast assume that the company has access to new capital to fund growth on terms that are palatable to holders of common equity.

Competition

Nutra Pharma operates in a highly competitive environment. The market for developing pharmaceuticals includes many competitors with more access to research, more experience achieving FDA clearance, and greater financial resources to fund expensive and time-consuming clinical studies / trials. In the OTC pain reliever markets, Nutra Pharma competes against more established companies with broader sales distribution, better brand recognition, and greater financial resources to fund marketing and advertising.

Concentration

While we expect the company to add additional distribution relationships, and acknowledge that Nutra Pharma distributes products online and to various retailers, the company is currently highly dependent on one distribution partner, Lumaxa, Inc., which is the exclusive global distributor of Nyloxin® and Pet Pain-Away in the network marketing channel.

Going Concern

The company's independent auditors, Liggett, Vogt & Webb, P.A, have raised doubt as to Nutra Pharma's ability to continue as a going concern. At the end of 1Q15, Nutra Pharma had an accumulated deficit of \$44.9mn, and had negative working capital of (\$3.6mn). We have assumed in our analysis that Nutra Pharma will be able to raise additional funding as necessary to fund operations and support clinical development until its OTC product family can generate sufficient recurring free cash flow to fund development. On June 30, 2015, the company announced that it had engaged Pickwick Capital Partners for strategic corporate planning and investment banking services.

Regulation

Nutra Pharma operates in a highly regulated industry. In the United States, manufacturing and commercialization of the company's products are regulated by the FDA, and the company must obtain regulatory approval to market products in each of the geographies in which it plans to operate. The active pharmaceutical ingredient in the company's OTC pain products, including Nyloxin® and Nyloxin® Extra Strength, and Cobroxin®, Asian cobra venom, has an approved US monograph under the Homeopathic Pharmacopoeia of the United States (HPUS), which allowed the company to register them with the FDA as homeopathic drugs. The company's manufacturing is overseen by ReceptoPharm at its Good Manufacturing Practice (GMP) certified facility and a third-party manufacturing and bottling facility. Nutra Pharma is also pursuing clinical development of pharmaceutical products, for which must obtain regulatory clearance, which can require costly and time-consuming clinical studies. We also expect the company to pursue a clinical study evaluating the efficacy of its chronic pain OTC products to alternatives.

Dilution potential

We expect Nutra Pharma to raise fresh capital by the issuance of a combination of debt and equity instruments. Equity instruments may include the new issuance of common equity, preferred equity, options and warrants, among others. Consequently, holders of common equity may have their positions diluted over time as the company raises new capital.

Management Team

Rik J Deitsch Chairman and Chief Executive Officer

Rik Deitsch has been the President, Chief Executive Officer and a Director of Nutra Pharma since November 7, 2002. From February 1998 through November 2002, Mr. Deitsch served as the President of NDA Consulting Inc., a biotechnology research group that provided consulting services to the pharmaceutical industry. NDA Consulting specialized in the research of peptides derived from cone snail venom, cobra venom and gila monster venom. Mr. Deitsch holds both a B.S. in Chemistry and an M.S. in Biochemistry from Florida Atlantic University and has conducted clinical and laboratory research in collaboration with scientists at Duke University Medical Center and the Cleveland Clinic. Mr. Deitsch is an adjunct professor and teaches several courses for Florida Atlantic University's College of Business and Continuing Education Department.

Harold H. Rumph, Director, Interim President, ReceptoPharm, Inc.

Harold H. Rumph has been a Director of Nutra Pharma since March of 2003 and brings with him a career devoted to technical sales and marketing. From 1988 to 2003 he was founder and owner of a high tech business providing computerized scheduling services to the construction industry. From 1986 to 1988, Mr. Rumph was Director of Sales and Marketing for JE Research, Inc. From 1980 to 1986 he was a founder, President, and Director of Biogenix, Inc. This company was involved in the development, manufacturing, and marketing of in-hospital bedside and ambulatory Patient Monitoring Systems. Biogenix was also involved with research and development of antiviral peptides from cobra venoms, including clinical trials under FDA-issued Investigational New Drug applications. Prior to the above Mr. Rumph led sales teams and was responsible for marketing at Harris Communications, Harris Computers, Memorex Corporation, Xerox Corporation, Cincinnati Milacron, Amdahl Corporation, RCA Computers, and IBM. Mr. Rumph received his BS degree from the United States Naval Academy.

Dr. Stewart Lonky, MD, Director

Dr. Lonky is board certified in internal medicine, pulmonary and critical care medicine. As a National Institutes of Health post doctoral fellow and faculty member at the University of California, San Diego, he spearheaded a research team studying the cellular and biochemical mechanisms of lung injury. He has published over a dozen articles in the peer-reviewed literature in this field. His practice involves the evaluation and treatment of patients with toxic exposures as well as patients with lung disease, and he has co-authored the book *Invisible Killers, The Truth About Environmental Genocide*.

From 1990-2006 he served as Chief Medical Officer of a medical device company that developed diagnostic products for the early diagnosis of cervical and oral cancer. In that role, his duties included the direction of clinical research and the ultimate clearance of three new diagnostic devices by the U.S. Food and Drug Administration (FDA). Dr. Lonky has published numerous articles in the peer-reviewed literature in the area of cellular physiology and its relation to cervical and oral cancer detection. Since Early 2007 he has been a Board Member of Histologix, LLC, a company that is bringing innovative biopsy tools to the medical marketplace. Dr. Lonky is specifically involved with the regulatory clearances of these novel devices for use on various tissue surfaces.

Dr. Lonky earned his B.S. degree at St. Lawrence University, his M.D. from the State University of New York, Downstate, and his M.B.A. from Pepperdine University.

Garry R. Pottruck, Director

Garry R. Pottruck currently serves as a Principal in the certified public accounting firm Blum and Blum, located in Coral Springs, Florida, where he has worked since 2011. Prior to this, he worked for Argy, Wiltse & Robinson, a Virginia-based accounting and consulting firm, from 2005 until 2010. From 1997 through 2005, he was managing partner in the certified public accounting firm, Friedberg & Pottruck, PA, located in Deerfield Beach, Florida. Friedberg & Pottruck specialized in providing accounting, tax and consulting services, primarily to physician practices. Mr. Pottruck held financial executive positions with several companies, both public and private, from 1984 through 1994, including more than three years as Chief Accounting Officer/Controller at Scopas Technology Company, Inc., a NASDAQ listed, development stage biotechnology research and development organization.

Prior to 1984, Mr. Pottruck worked for public accounting firms after graduating with a B.S. Degree in Accounting from the C.W. Post School of Professional Accountancy at Long Island University in 1979. He is currently licensed as a Certified Public Accountant in both Missouri and Florida.

FINANCIAL SUMMARY

Figure 8. Income Statement

Figures in \$mn unless specified	FY14	FY15E	FY16E	FY17E	FY18E	FY19E
Revenue	0.6	0.8	4.4	6.8	9.4	12.1
YoY growth	24.5%	24.5%	24.5%	24.5%	24.5%	24.5%
Cost of Sales	0.1	0.2	1.0	1.5	2.0	2.5
Gross Profit	0.5	0.6	3.4	5.2	7.4	9.6
Margin	80.8%	78.2%	77.0%	77.5%	78.5%	79.5%
Operating expenses	2.7	1.9	3.4	5.1	5.9	7.3
EBIT	(2.2)	(1.2)	(0.0)	0.2	1.5	2.4
Margin	(370.4%)	(150.6%)	(0.0%)	2.5%	15.5%	19.5%
EBITDA	(2.2)	(1.2)	0.0	0.3	1.7	2.7
Margin	(370.4%)	(148.6%)	0.5%	4.3%	18.2%	22.5%
Other income/ (expense)	(0.3)	(0.2)	(0.3)	(0.2)	(0.2)	0.0
Profit before tax	(2.5)	(1.5)	(0.3)	(0.0)	1.3	2.4
Tax	0.0	0.0	0.0	0.0	0.0	0.2
Net income	(2.5)	(1.5)	(0.3)	(0.0)	1.3	2.2
Margin	NM	NM	(5.7%)	(0.5%)	13.4%	17.7%
EPS (per share)	(0.08)	(0.04)	(0.01)	(0.00)	0.03	0.04

Source: SeeThruEquity Research

Figure 9. Balance Sheet

Figures in \$mn, unless specified	FY14	FY15E	FY16E	FY17E	FY18E	FY19E
Current assets	0.3	1.0	2.6	4.3	6.8	8.5
Other assets	0.0	0.1	0.1	0.3	0.5	0.9
Total assets	0.4	1.1	2.7	4.5	7.3	9.3
Current liabilities	4.0	4.0	4.6	6.0	7.1	6.8
Other liabilities	0.0	0.3	0.3	0.3	0.3	0.0
Shareholders' equity	(3.6)	(3.3)	(2.1)	(1.8)	(0.1)	2.6
Total liab and shareholder equity	0.4	1.1	2.7	4.5	7.3	9.3

Source: SeeThruEquity Research

Figure 10. Cash Flow Statement

Figures in \$mn, unless specified	FY14	FY15E	FY16E	FY17E	FY18E	FY19E
Cash from operating activities	(1.2)	(1.2)	(0.7)	0.5	1.6	2.8
Cash from investing activities	(0.1)	(0.0)	(0.1)	(0.3)	(0.4)	(0.5)
Cash from financing activities	0.9	1.4	1.0	0.0	0.0	(1.9)
Net inc/(dec) in cash	(0.5)	0.2	0.2	0.2	1.2	0.3
Cash at beginning of the year	0.5	0.6	0.8	1.0	1.2	2.4
Cash at the end of the year	0.1	0.8	1.0	1.2	2.4	2.7

Source: SeeThruEquity Research

About Nutra Pharma Corp.

Nutra Pharma Corporation operates as a biotechnology company specializing in the acquisition, licensing, and commercialization of pharmaceutical products and technologies for the management of neurological disorders, cancer, autoimmune, and infectious diseases, including Multiple Sclerosis (MS), Human Immunodeficiency Virus (HIV), Adrenomyeloneuropathy (AMN) and Pain. Additionally, the Company markets drug products for sale for the treatment of pain under the brand Nyloxin® and Pet Pain-Away. For additional information about Nutra Pharma, visit: <http://www.NutraPharma.com>, <http://www.nyloxin.com>, or <http://www.petpainaway.com>.



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