

### Action Summary – 6 December 2021

Analyst Theodore R. O'Neill – Better than expected 3Q21 – Reiterate Buy and \$4 PT

- **OTLC reported a better-than-expected 3Q21.** It reported an EPS loss of \$0.00 on no revenue versus our EPS and revenue estimates of a loss of \$0.01, on no revenue. There is no consensus. The \$0.00 favorable EPS variance was due to lower operating expenses.
- **New Phase II with Keytruda®.** Subsequent to the end of the quarter, the company announced it had submitted a clinical study protocol to the FDA for the initiation of a Phase 2 trial for its OT-101 with Keytruda as a treatment for malignant pleural mesothelioma (MPM)
- The OT-101-ONC program has been moving forward steadily through strategic alliances with top pharmaceutical companies. Of note is the biomarker program spanning mesothelioma, glioblastoma, lung and colorectal cancers, where AI driven transcriptome analyses will be used to derive the predictive biomarker for TGF- $\beta$  therapeutics such as OT-101.
- We have adjusted our estimates to assume no further revenue until 3Q22. As a result, our 2021 revenue is now \$0 versus \$500K before. For 2022, our revenue estimate is now \$1.5MM, down from \$10MM. 2021 EPS is unchanged but for 2022, our EPS estimate drops to a loss of \$0.02 from a gain of \$0.01.
- **Attractive valuation.** The shares appear to us inexpensive on discounted future earnings. Relative to its peers, if the shares were to trade to our price target it would have a valuation premium to its peers, but it would not exceed the high end of the existing range.

|                                 |                          |                                   |                       |
|---------------------------------|--------------------------|-----------------------------------|-----------------------|
| 12/3 Closing price: \$0.17      | Market cap: \$63 million | 2022 P/E: NMF                     | 2022 EV / Sales:45    |
| Shares outstanding: 372 million | Insider ownership: 45%   | 3-mo avg. trading volume: 196,251 | Dividend/Yield: NA/NA |

### GAAP estimates (EPS in dollars – Revenue in thousands)

| Period | EPS             | Revenue        | Op Margin  |
|--------|-----------------|----------------|------------|
| 1Q20A  | \$(0.05)        | \$341          | NMF        |
| 2Q20A  | \$ 0.01         | \$1,400        | NMF        |
| 3Q20A  | \$(0.02)        | \$0            | NMF        |
| 4Q20A  | <u>\$(0.04)</u> | <u>\$0</u>     | <u>NMF</u> |
| FY20A  | <u>\$(0.11)</u> | <u>\$1,741</u> | <u>NMF</u> |
| 1Q21A  | \$(0.03)        | \$0            | NMF        |
| 2Q21A  | \$(0.01)        | \$0            | NMF        |
| 3Q21A  | \$(0.00)        | \$0            | NMF        |
| 4Q21E  | <u>\$(0.01)</u> | <u>\$0</u>     | <u>NMF</u> |
| FY21E  | <u>\$(0.04)</u> | <u>\$0</u>     | <u>NMF</u> |
| 1Q22E  | \$(0.01)        | \$0            | NMF        |
| 2Q22E  | \$(0.00)        | \$0            | NMF        |
| 3Q22E  | \$(0.00)        | \$500          | NMF        |
| 4Q22E  | <u>\$(0.00)</u> | <u>\$1,000</u> | <u>NMF</u> |
| FY22E  | <u>\$(0.02)</u> | <u>\$1,500</u> | <u>NMF</u> |

Note: Numbers may not add due to rounding. See our full model in the back of this report.

### Cash balance (in thousands)

|         |         |
|---------|---------|
| • 2020A | • \$494 |
| • 2021E | • \$453 |
| • 2022E | • \$178 |

### Debt (in thousands)

|         |           |
|---------|-----------|
| • 2020A | • \$4,401 |
| • 2021E | • \$6,000 |
| • 2022E | • \$8,000 |

### Adj. EBITDA (in thousands)

|         |              |
|---------|--------------|
| • 2020A | • (\$9,413)  |
| • 2021E | • (\$10,544) |
| • 2022E | • (\$6,310)  |

### Risks/Valuation

- Risks include: limited resources; highly regulated and competitive industry; commercialization of technology.
- Our \$4 target is derived using a discounted future earnings model.

**Company description:** Oncotelic is a cancer immunotherapy company dedicated to the development of first in class self-immunization protocol ("SIP™") candidates for difficult to treat cancers.

Figure 1 – Oncotelic Therapeutics, Inc. – One-year Trading snapshot



Source: FactSet

## Valuation Methodology

We believe OTLC is undervalued and we support that belief with two valuation techniques, both of which generate approximately the same figure: \$4.00. For the purposes of determining our price target we use a discounted future earnings model. For the purpose of confirming our price target we look at comparable company valuations:

- 1) The discounted value of all future earnings was used for our price target (see Figure 2)
- 2) Valuation relative to peers (see Figure 3)

## Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$4.00 is based on a discounted future earnings model (Figure 2). For the purposes of deriving an earnings-based price target, we assume the company incurs losses until 2023 and we take, what we think is a very conservative approach to earnings growth. The model sums up all earnings per share, discounted at 15% to arrive at a per share valuation. Note, this model understates future novel product developments, probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is \$3.56 which we round up to \$4.00.

*Figure 2 – Oncotelic Therapeutics, Inc. – Discounted Earnings Valuation*

| Discounted Earnings: |        | \$3.56         |
|----------------------|--------|----------------|
| Year                 | EPS    | Discounted EPS |
| 2021                 | (0.03) | (0.03)         |
| 2022                 | (0.02) | (0.01)         |
| 2023                 | 0.20   | 0.15           |
| 2024                 | 0.30   | 0.20           |
| 2025                 | 0.40   | 0.23           |
| Terminal Value:      |        | 1.90           |

Source: Litchfield Hills Research LLC

## Valuation Relative to Peers

Here we are using multiples of book and multiple of sales because the company is not yet profitable. The shares sell at a premium to peers (Figure 3) ranging from 5% to 77%. If the shares were to trade to our price target it would have a valuation premium to its peers exceeding the high end of the existing range. Comparables can be found in Figure 5.

*Figure 3 –Oncotelic Therapeutics, Inc. – Summary Comps to Peers*

|                         | 2022 Sales Multiple | 2022 EV / Sales |
|-------------------------|---------------------|-----------------|
| Average                 | 39.80               | 26.24           |
| OTLC                    | 41.76               | 46.51           |
| <b>Premium to peers</b> | <b>5%</b>           | <b>77%</b>      |

Source: Litchfield Hills Research LLC and Refinitiv Eikon

## Guidance and Financial Forecasts

The company provides no guidance. Our financial forecast makes many assumptions in order to determine a valuation. We have tried to be as conservative as possible, but the nature of this particular business is that if it can get very profitable very quickly. If the products are accepted and priced as the company hopes, we believe our model may turn out to be conservative in terms of earnings growth. We are projecting that the company will need to raise capital in the next 12-24 months.

## Quarterly Results

As shown in Figure 4 (below), OTLC reported a better-than-expected 3Q21. It reported an EPS loss of \$0.00 on no revenue versus our EPS and revenue estimates of a loss of \$0.01, on no revenue. There is no consensus. The \$0.00 favorable EPS variance was due to lower operating expenses.

*Figure 4 Oncotelic Therapeutics, Inc. – Variance Analysis (\$ in thousands except per share)*

|                                 |             |             | Better/(worse)<br>than forecast |
|---------------------------------|-------------|-------------|---------------------------------|
|                                 | 2021<br>Q3E | 2021<br>Q3A |                                 |
| <b>Income Statement</b>         |             |             |                                 |
| Total Revenue                   | \$0.0       | \$0.0       | \$0.0                           |
| Total cost of revenue           | 0.0         | 0.0         | 0.0                             |
| Total Gross Profit              | 0.0         | 0.0         | 0.0                             |
| Operating expenses:             |             |             |                                 |
| SG&A                            | 1,500.0     | 621.9       | 878.1                           |
| R&D                             | 800.0       | 1,187.0     | (387.0)                         |
| Total Expenses                  | 2,300.0     | 1,809.0     | 491.0                           |
| Earnings (loss) from Operations | (2,300.0)   | (1,809.0)   | 491.0                           |
| Total Other income/(expense)    | (500.0)     | 246.4       | 746.4                           |
| Earnings before taxes           | (2,800.0)   | (1,562.5)   | 1,237.5                         |
| Tax expense/(benefit)           | 0.0         | 0.0         | 0.0                             |
| Net income                      | (\$2,800)   | (\$1,563)   | \$1,237.5                       |
| EPS                             | (\$0.01)    | (\$0.00)    | \$0.00                          |
| Diluted common shares           | 371,000     | 370,444     | 556                             |

Source: Company filings and Litchfield Hills Research LLC

## Company background

For additional information, please see our 7 December 2020 initiation.

Figure 5 – Oncotelic Therapeutics, Inc. – Comp Table

| FactSet<br>Ticker | Company Name                                | Closing<br>Price | Market Cap<br>\$MM | EV \$MM | 2022 Consensus Multiples (Except<br>book multiple) |              |                  |
|-------------------|---|------------------|--------------------|---------|--|--------------|------------------|
|                   |   |                  |                    |         | Market Cap<br>/ Sales                              | EV /Sales    | Price to<br>Book |
| TEVA-US           | Teva Pharmaceutical (Adr)                   | \$8.05           | 9,209              | 32,353  | 0.56   | 1.97         | 1.05             |
| APLS-US           | Apellis Pharmaceuticals, Inc.               | \$41.70          | 4,005              | 3,352   | 30.41  | 25.23        | 21.29            |
| ARNA-US           | Arena Pharmaceuticals Inc                   | \$49.55          | 3,039              | 2,300   | 113.89   | 84.09        | 4.17             |
| NGM-US            | NGM Biopharmaceuticals, Inc.                | \$18.11          | 1,407              | 1,018   | 33.19  | 22.98        | 7.64             |
| SRRK-US           | Scholar Rock Holding Corp.                  | \$25.10          | 881                | 728     | 41.59  | 33.29        | 6.36             |
| CYDY-US           | CytoDyn Inc.                                | \$1.11           | 732                | 744     | NA   | NA           | NA               |
| PLRX-US           | Pliant Therapeutics, Inc.                   | \$12.27          | 442                | 220     | 119.51   | 58.69        | 2.85             |
| ALBO-US           | Albireo Pharma Inc                          | \$22.04          | 425                | 251     | 8.14   | 4.66         | 3.95             |
| RIGL-US           | Rigel Pharmaceuticals                       | \$2.45           | 419                | 314     | 3.93   | 2.96         | 17.42            |
| SPPI-US           | Spectrum Pharmaceuticals Inc                | \$1.37           | 225                | 88      | 6.99   | 2.35         | 3.71             |
|                   | <b>AVERAGE</b>                              |                  |                    |         | <u>39.80</u>                                       | <u>26.24</u> | <u>7.60</u>      |
| OTLC-US           | Oncotelic Therapeutics Inc (US Listing)     | \$0.17           | 63                 | 70      | 41.76  | 46.51        | 1.66             |
|                   | <b>OTLC-US Premium/(Discount) to peers:</b> |                  |                    |         | <b>5%</b>  | <b>77%</b>   | <b>-78%</b>      |

Figure 6 – Oncotelic Therapeutics, Inc. – Income Statement (\$'000)

| December ending year       | 2019A     |           | 2020A   |           |           |           | 2020A     |           | 2021E     |           |            |           | 2021E     |           | 2022E     |           |  |  | 2022E |
|----------------------------|-----------|-----------|---------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|-----------|-----------|-----------|-----------|-----------|--|--|-------|
|                            | Year      | Q1A       | Q2A     | Q3A       | Q4A       | Year      | Q1A       | Q2A       | Q3A       | Q4E       | Year       | Q1E       | Q2E       | Q3E       | Q4E       | Year      |  |  |       |
| (\$000)                    |           |           |         |           |           |           |           |           |           |           |            |           |           |           |           |           |  |  |       |
| Total revenue              | \$0       | \$341     | \$1,400 | \$0       | \$0       | \$1,741   | \$0       | \$0       | \$0       | \$0       | \$0        | \$0       | \$0       | \$500     | \$1,000   | \$1,500   |  |  |       |
| Cost of Goods              | 0         | 0         | 0       | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0          | 0         | 0         | 100       | 200       | 300       |  |  |       |
| Gross Profit               | 0         | 341       | 1,400   | 0         | 0         | 1,741     | 0         | 0         | 0         | 0         | 0          | 0         | 0         | 400       | 800       | 1,200     |  |  |       |
| R&D                        | 1,372     | 312       | 482     | 936       | 2,572     | 4,302     | 1,557     | 957       | 622       | 1,000     | 4,135      | 1,000     | 1,000     | 1,000     | 1,000     | 4,000     |  |  |       |
| SG&A                       | 2,939     | 2,678     | 904     | 680       | 762       | 5,023     | 481       | 2,807     | 1,187     | 1,200     | 5,676      | 900       | 900       | 900       | 900       | 3,600     |  |  |       |
| Total Operating Expenses   | 4,311     | 2,990     | 1,386   | 1,616     | 3,334     | 9,326     | 2,038     | 3,764     | 1,809     | 2,200     | 9,811      | 1,900     | 1,900     | 1,900     | 1,900     | 7,600     |  |  |       |
| Operating Income           | (4,311)   | (2,649)   | 14      | (1,616)   | (3,334)   | (7,585)   | (2,038)   | (3,764)   | (1,809)   | (2,200)   | (9,811)    | (1,900)   | (1,900)   | (1,500)   | (1,100)   | (6,400)   |  |  |       |
| Op. Margin                 |           |           |         |           |           |           |           |           |           |           |            |           |           | -300%     | -110%     | -427%     |  |  |       |
| Total Other Items          | (2,327)   | (2,009)   | 568     | (370)     | (107)     | (1,918)   | (765)     | 196       | 246       | (500)     | (823)      | 0         | 0         | 0         | 0         | 0         |  |  |       |
| Pre-Tax Income             | (6,638)   | (4,658)   | 582     | (1,987)   | (3,440)   | (9,503)   | (2,803)   | (3,568)   | (1,563)   | (2,700)   | (10,634)   | (1,900)   | (1,900)   | (1,500)   | (1,100)   | (6,400)   |  |  |       |
| Taxes (benefit)            | 0         | 0         | 0       | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0          | 0         | 0         | 0         | 0         | 0         |  |  |       |
| Tax Rate                   | 0         | 0         | 0       | 0         | 0         | 0         | 0         | 0         | 0         | 0         | 0          | 0         | 0         | 0         | 0         | 0         |  |  |       |
| Net Income (loss)          | (\$6,638) | (\$4,658) | \$582   | (\$1,987) | (\$3,440) | (\$9,503) | (\$2,803) | (\$3,568) | (\$1,563) | (\$2,700) | (\$10,634) | (\$1,900) | (\$1,900) | (\$1,500) | (\$1,100) | (\$6,400) |  |  |       |
| EPS, as reported           | (\$0.11)  | (\$0.05)  | \$0.01  | (\$0.02)  | (\$0.04)  | (\$0.11)  | (\$0.03)  | (\$0.01)  | (\$0.00)  | (\$0.01)  | (\$0.04)   | (\$0.01)  | (\$0.00)  | (\$0.00)  | (\$0.00)  | (\$0.02)  |  |  |       |
| Diluted Shares Outstanding | 59,958    | 84,917    | 94,737  | 88,965    | 88,100    | 88,100    | 94,193    | 369,547   | 370,444   | 372,000   | 301,546    | 380,000   | 390,000   | 400,000   | 400,000   | 392,500   |  |  |       |

Figure 7 – Oncotelic Therapeutics, Inc. – Balance Sheet (\$000)

| December ending year                | FY2022E         | FY2021E         | FY2020A         | FY2019          |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| <b>Balance sheet</b>                |                 |                 |                 |                 |
| Current Assets                      |                 |                 |                 |                 |
| Cash and S.T.I.                     | \$178           | \$453           | \$494           | \$82            |
| Accounts receivable                 | 500             | 150             | 20              | 150             |
| Inventories                         | 0               | 0               | 0               | 0               |
| Other assets                        | 500             | 60              | 102             | 41              |
| <b>Total Current Assets</b>         | <b>1,178</b>    | <b>663</b>      | <b>616</b>      | <b>273</b>      |
| Intangibles                         | 800             | 840             | 873             | 925             |
| Goodwill                            |                 |                 |                 |                 |
| Other non-current assets            | 2,000           | 1,000           | 1,112           | 1,425           |
| <b>Total Assets</b>                 | <b>\$25,040</b> | <b>\$23,565</b> | <b>\$23,663</b> | <b>\$23,685</b> |
| Current Liabilities                 |                 |                 |                 |                 |
| Accounts payable and accrued exp.   | \$5,000         | \$5,000         | \$3,127         | \$2,657         |
| Contingent consideration            | 3,000           | 2,625           | 2,625           | 2,625           |
| Convertible debt                    | 6,000           | 4,000           | 4,401           | 961             |
| Other current liabilities           | 2,000           | 2,500           | 1,029           | 541             |
| <b>Total current liabilities</b>    | <b>16,000</b>   | <b>14,125</b>   | <b>11,182</b>   | <b>6,783</b>    |
| Conv. and Long Term Debt            | 0               | 0               | 0               | 0               |
| Other non-current                   | 0               | 0               | 0               | 0               |
| <b>Total Liabilities</b>            | <b>16,000</b>   | <b>14,125</b>   | <b>11,182</b>   | <b>6,783</b>    |
| Stockholders' Equity                |                 |                 |                 |                 |
| Preferred stock                     | 3               | 3               | 3               | 3               |
| Common stock                        | 3,701           | 3,701           | 906             | 841             |
| Additional paid-in-capital          | 44,000          | 38,000          | 32,493          | 28,186          |
| Retained earnings                   | (38,664)        | (32,264)        | (21,630)        | (12,127)        |
| Cum. trans. adj. and treasury stock | 0               | 0               | 709             | 0               |
| <b>Total stockholders' equity</b>   | <b>9,040</b>    | <b>9,440</b>    | <b>12,481</b>   | <b>16,902</b>   |
| <b>Total Liabilities and equity</b> | <b>\$25,040</b> | <b>\$23,565</b> | <b>\$23,663</b> | <b>\$23,685</b> |

Source: Company reports and Litchfield Hills Research LLC

*Figure 8 – Oncotelic Therapeutics, Inc. – Cash Flow (\$000)*

|                                   | <b>2022E</b>   | <b>2021E</b>  | <b>2020A</b> | <b>2019A</b> |
|-----------------------------------|----------------|---------------|--------------|--------------|
| Net Income                        | (\$6,400)      | (\$10,634)    | (\$9,503)    | (\$6,638)    |
| Accounts receivable               | (\$350)        | (\$130)       | \$130        | (\$150)      |
| Inventories                       | \$0            | \$0           | \$0          | \$0          |
| Other assets                      | (\$440)        | \$42          | (\$61)       | (\$41)       |
| Intangibles                       | \$40           | \$33          | \$51         | \$51         |
| Goodwill                          | \$0            | \$0           | \$0          | (\$21,062)   |
| Other non-current                 | (\$1,000)      | \$112         | \$313        | \$345        |
| Accounts payable and accrued exp. | \$0            | \$1,873       | \$471        | \$2,657      |
| Contingent consideration          | \$375          | \$0           | \$0          | \$2,625      |
| Convertible debt                  | \$2,000        | (\$401)       | \$3,440      | \$961        |
| Other current liabilities         | (\$500)        | \$1,471       | \$488        | \$257        |
| Conv. and Long Term Debt          | \$0            | \$0           | \$0          | \$0          |
| Other non-current                 | \$0            | \$0           | \$0          | \$0          |
| Preferred stock                   | \$0            | \$0           | \$0          | \$3          |
| Common stock                      | \$0            | \$2,795       | \$65         | \$772        |
| Additional paid-in-capital        | \$6,000        | \$5,507       | \$4,307      | \$20,299     |
| Non-controlling interest          | \$0            | (\$709)       | \$709        | \$0          |
| Other                             |                |               |              | \$1          |
| <b>Total Cash Flow</b>            | <b>(\$275)</b> | <b>(\$41)</b> | <b>\$412</b> | <b>\$79</b>  |

Source: Company reports and Litchfield Hills Research LLC

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