

Dyadic International, Inc.

(DYAI - OTCQX)

SEC Registration Expected 1H:19

Based on our DCF model and a 15% discount rate, Dyadic International is valued at approximately \$4.50 per share. We assume a 15% probability of ultimate success for C1, based on historical drug approval rates. The model assumes revenue contributions from sources worldwide.

Current Price (11/7/2018) **\$1.85**
Valuation \$4.50

OUTLOOK

Dyadic has developed a gene expression system based on C1, its proprietary fungal expression system that can produce a variety of recombinant proteins. C1 is already commercial in industrial applications and is in development for use in the development and production of pharmaceutical grade proteins. C1 exhibits potential to economically produce biologic vaccines, virus like particles, antibodies, Fc-fusion, enzymes and other biopharmaceuticals.

In 2015, the company sold its industrial business to DuPont for \$75 million and retained the exclusive right to sublicense C1 for use in animal and human pharmaceutical applications. Proceeds from the DuPont sale provided cash for share repurchase and further development of the C1 platform for production of biologics. Additional R&D funding comes from partners. Dyadic is currently working with several biopharmaceutical companies and government organizations to validate the technology.

In the near term, we expect growing R&D revenue as additional partners are added. By 2020, we anticipate first sales-related revenues from C1, which represent licensing fees, upfront payments, milestones and royalties.

SUMMARY DATA

52-Week High **2.29**
 52-Week Low **1.36**
 One-Year Return (%) **27.8**
 Beta **-0.33**
 Average Daily Volume (sh) **66,384**

Shares Outstanding (mil) **26.7**
 Market Capitalization (\$mil) **49.4**
 Short Interest Ratio (days) **N/A**
 Institutional Ownership (%) **10.8**
 Insider Ownership (%) **45.5**

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 2018 Estimate **N/A**
 P/E using 2019 Estimate **N/A**

Zacks Rank **N/A**

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

ZACKS ESTIMATES

Revenue

(In millions of USD)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2017	\$0.1 A	\$0.2 A	\$0.3 A	\$0.2 A	\$0.8 A
2018	\$0.2 A	\$0.2 A	\$0.3 A	\$0.2 E	\$0.8 E
2019					\$1.4 E
2020					\$2.2 E

Earnings per Share

	Q1	Q2	Q3	Q4	Year
2017	\$0.07 A	-\$0.05 A	-\$0.05 A	-\$0.05 A	-\$0.07 A
2018	-\$0.07 A	-\$0.06 A	-\$0.06 A	-\$0.06 E	-\$0.25 E
2019					-\$0.27 E
2020					-\$0.30 E

WHAT'S NEW

Third Quarter 2018

Dyadic International Inc. (OTCQX: DYAI) [released](#) third quarter financial and operational results on November 7, 2018. Revenues were \$263,000 and represented research and development proceeds from partners working to develop C1. Total expenses were \$2.0 million and net loss was (\$1.5) million after adjusting for interest income. Loss per share was (\$0.06). Total cash and investments were \$42.8 million, equivalent to \$1.54 per average share in the third quarter.

Other highlights for the quarter included the announcement of a research collaboration with Sanofi-Aventis, the filing of the initial Form 10 registration statement with the SEC and advances in productivity and stability of C1 output.

Revenues for the quarter declined 3% to \$263,000, and were slightly greater than our estimate of \$200,000. Total expenses decreased \$0.1 million to \$2.0 million in 3Q:18, with lower general and administrative expenses contributing to the change slightly offset by higher related party research and development from the launch of the research collaboration with BDI. Net loss was (\$1.5) million for the period, essentially flat with 3Q:17 levels. On a per share basis, the loss increased by a penny to (\$0.06) due to lower share count and the same level of losses being spread over fewer shares.

Research Collaboration with Sanofi-Aventis

During the third quarter, Dyadic [entered](#) into its seventh collaboration for the year with Sanofi-Aventis. The relationship will advance a proof of concept study for C1 which is fully funded and seeks to produce multiple types of biologics and pharmaceuticals for human health. The collaboration is expected to complete its research by 2H:19. We are optimistic on research collaborations with large pharmaceutical companies as it allows these potential acquirers of this technology evaluate its potential and have a stake in its success. With numerous interested parties invested in developing the technology we anticipate that if a bidding war begins, substantial value will accrue to Dyadic shareholders.

Poster Presentation

A [poster](#) entitled "Development of the Filamentous Fungus *Myceliophthora Thermophila* C1 into a Next-generation Therapeutic Protein Production System" was presented at The American Association of Pharmaceutical Scientists (AAPS) Annual Meeting and Exposition 2018 in Washington DC on November 7th. The poster highlighted the productivity of C1, provided detail on the reduction of proteases and updated progress of the glycoengineering to achieve significant levels of G0 glycans. Productivity levels of 2.4 g/l/d have been achieved for monoclonal antibodies (mAbs) and the mAbs produced bind to receptors similar to CHO produced controls. Similar productivity levels have been achieved for Fab fragments.

Form 10

On November 5th, Dyadic [announced](#) the filing of its initial Form 10 Registration statement with the SEC. The SEC has confirmed receipt of the filing and will be reviewing the document shortly. Comments on the filing from the Securities and Exchange Commission are expected to be returned to Dyadic within 30 to 45 days after submission. Under circumstances where there are no comments to be addressed, the Form 10 is usually considered effective 60 days following the initial filing. However, if the SEC does provide comments, Dyadic will address them prior to the filing becoming effective. Based on precedents with respect to interaction with the agency, the company anticipates the filing to be effective in early 2019 and to become an SEC registered company upon the effective date. By extension, we anticipate that we will see a Form 10-K filed prior to the end of March for the company's fiscal year ending December 31, similar to other SEC registered companies with the same fiscal year end.

Other Highlights

Dyadic continues to improve the productivity and quality of output from C1 and noted the ability of the expression system to produce certolizumab at a rate of 2.6 grams per liter per day. This opens up the opportunity for a partner or acquirer to develop a biosimilar for this drug in a market that the company pegs at \$1.4 billion per year. The company also demonstrated high productivity of seven times (723 mg/l) the original target productivity of an antigen against the Schmallenberg virus in work performed with the Zoonoses Anticipation and Preparedness Initiative (ZAPI) project. Other advances with respect to protease deletion and glycosylation were also mentioned.

Summary

Dyadic is advancing its C1 platform in the protein expression industry. While the current standard largely employs Chinese Hamster Ovary (CHO) and *E. coli* to produce the majority of pharmaceutical proteins, the improved profile of C1 can increase productivity and quality of output relative to these entrenched systems. There are a number of important factors that support the use of C1 and that make Dyadic an attractive investment which we list below.

- **High cost of biologics production demands lower cost alternative**
- **C1 technology provides faster cell line development and production cycle**
 - **Technology addresses high cost component of drug manufacture**
 - **Favorable characteristics of productivity and purity**
 - **Less stringent operating conditions required**
 - **Low-cost synthetic growth media used**
 - **Avoids mammalian cell related viruses, reducing purification steps**
 - **Particularly beneficial for expensive, difficult to produce recombinant proteins**
- **Natural alignment between C1 and biosimilars/biobetters due to cost focus**
- **Development fully funded with cash on the balance sheet and partner contributions**
- **CEO holds dominant share of business and has history of cost conscious development**

The company's third quarter results show continued advancement in the progression of the company on a number of fronts, including qualifying as a SEC reporting company, achieving the desired output of C1 in terms of glycosylation, protease deletion and productivity and creating new partnerships which may eventually lead to an acquisition or licensing arrangement. We see a substantial level of value with shares trading near net cash levels and an exciting technology that can revolutionize the protein expression industry. Future favorable catalysts include adding more collaborators, achieving output milestones and entering the clinical trial process. We maintain our target price of \$4.50 per share.

PROJECTED FINANCIALS

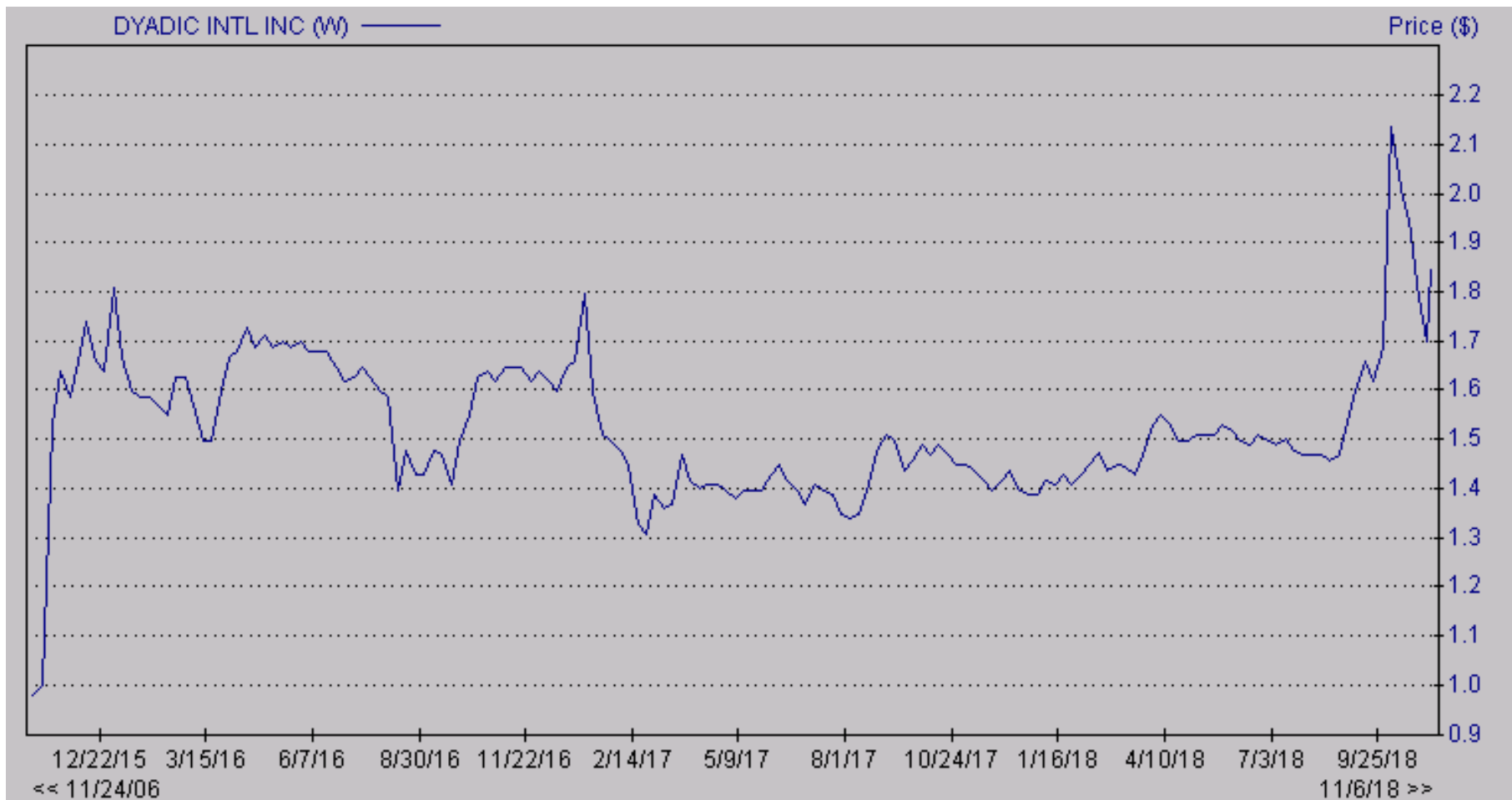
Dyadic International, Inc. - Income Statement

Dyadic International, Inc.	2017 A	Q1 A	Q2 A	Q3 A	Q4 E	2018 E	2019 E	2020 E
Total Revenues	\$0.8	\$0.2	\$0.2	\$0.3	\$0.2	\$0.8	\$1.4	\$2.2
<i>YOY Growth</i>	28%	52%	-22%	-3%	27%	7%	73%	57%
Cost of R&D Revenue	\$0.7	\$0.1	\$0.1	\$0.2	\$0.2	\$0.7	\$1.1	\$1.8
Provision for Contract Losses	\$0.2	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
R&D	\$1.8	\$0.6	\$0.6	\$0.5	\$0.6	\$2.3	\$2.8	\$3.2
R&D Related Party	\$0.4	\$0.4	\$0.3	\$0.3	\$0.4	\$1.4	\$1.6	\$1.8
G&A	\$5.0	\$1.3	\$0.9	\$1.0	\$1.0	\$4.2	\$4.2	\$4.6
Foreign Currency Exchange	(\$0.2)	\$0.0	(\$0.0)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Income from operations	(\$7.1)	(\$2.2)	(\$1.8)	(\$1.8)	(\$2.0)	(\$7.8)	(\$8.3)	(\$9.1)
<i>Operating Margin</i>	-940%	-110%	-1126%	-677%				
Interest Income	\$0.6	\$0.2	\$0.2	\$0.2	\$0.2	\$0.8	\$0.7	\$0.6
Other	\$4.4	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Pre-Tax Income	(\$2.2)	(\$2.0)	(\$1.6)	(\$1.5)	(\$1.8)	(\$6.9)	(\$7.6)	(\$8.5)
Provision for Income Tax	(\$0.1)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<i>Tax Rate</i>	3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	(\$2.1)	(\$2.0)	(\$1.6)	(\$1.5)	(\$1.8)	(\$6.9)	(\$7.6)	(\$8.5)
<i>Net Margin</i>	-282%	-1108%	-991%	-585%	-880%	-858%	-543%	-386%
Reported EPS	(\$0.07)	(\$0.07)	(\$0.06)	(\$0.06)	(\$0.06)	(\$0.25)	(\$0.27)	(\$0.30)
<i>YOY Growth</i>	-25.2%	-202.8%	21.2%	5.1%	32.4%	236%	9%	
Shares Outstanding	28.92	28.16	28.06	27.77	28.00	28.00	28.00	28.00

Source: Company Filing // Zacks Investment R

HISTORICAL STOCK PRICE

Dyadic International, Inc. – Share Price Chart



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