

Action Summary – 31 March 2022

Analyst Theodore R. O’Neill – Transformational JV opportunity for biotech OTLC – Reiterate Buy and \$4 PT

- **OTLC is on track to complete a JV that we believe is a transformational opportunity for OTLC.**
- **Strong JV partners.** The JV, expected to be called GMP Biotechnology, will be between OTLC and Golden Mountain Partners LLC. It will advance clinical development of OTLC’s pharmaceutical pipeline, primarily OT-101, and build out of manufacturing facilities for the commercial launch of Oncotelic’s drug candidates. OTLC has been working with GMP since early 2020 and the company believes it will be a strong financial partner. The culmination of the JV will be an IPO of a new biotech company that could be worth as much as \$1B and owned 35%-45% by OTLC.
- **Meaningful anti-viral and safety results treating COVID-19.** In in-vitro testing at an independent lab, OT-101 showed anti-viral activity and a safety index that is considered on par or superior to Remdesivir. Unlike Remdesivir, OT-101 targets not only the virus replication but also the virus induced pneumonia and fibrosis. Its Phase 2 trial was completed in South America. This was a randomized, double-blind, placebo-controlled Phase 2 study intended to evaluate the safety and efficacy of OT-101 in adult patients hospitalized with positive SARS-CoV-2 and pneumonia. The company reported positive top line data for its COVID trial Nov. 23, 2021
- **Addressing difficult to treat cancers.** OT-101 has rare pediatric designation for DIPG (pediatric cancer of the brainstem) for which there currently is no cure. The JV will also use OTLC IP to pursue other rare cancers
- **Milestones achieved.** The next milestone we are expecting the completion of the JV sometime in the next 30 days, followed in a capital raise in advance of an IPO.
- **Attractive valuation.** If the IPO of the JV achieves 1/3 of the possible \$1B valuation, the shares should be worth more than \$1.00. At the current price, the shares trade at a significant discount to its future.

3/30 Closing price: \$0.22	Market cap: \$79 million	2023 P/E: NMF	2023 EV / Sales: NMF
Shares outstanding: 372 million	Insider ownership: 38%	3-mo avg. trading volume: 159,000	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	\$(0.04)	\$0	NMF
FY20A	\$(0.11)	\$1,741	NMF
1Q21A	\$(0.03)	\$0	NMF
2Q21A	\$(0.01)	\$0	NMF
3Q21A	\$(0.00)	\$0	NMF
4Q21E	\$(0.01)	\$0	NMF
FY21E	\$(0.04)	\$0	NMF
1Q22E	\$(0.01)	\$0	NMF
2Q22E	\$(0.00)	\$0	NMF
3Q22E	\$(0.00)	\$500	NMF
4Q22E	\$(0.00)	\$1,000	NMF
FY22E	\$(0.02)	\$1,500	NMF

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)

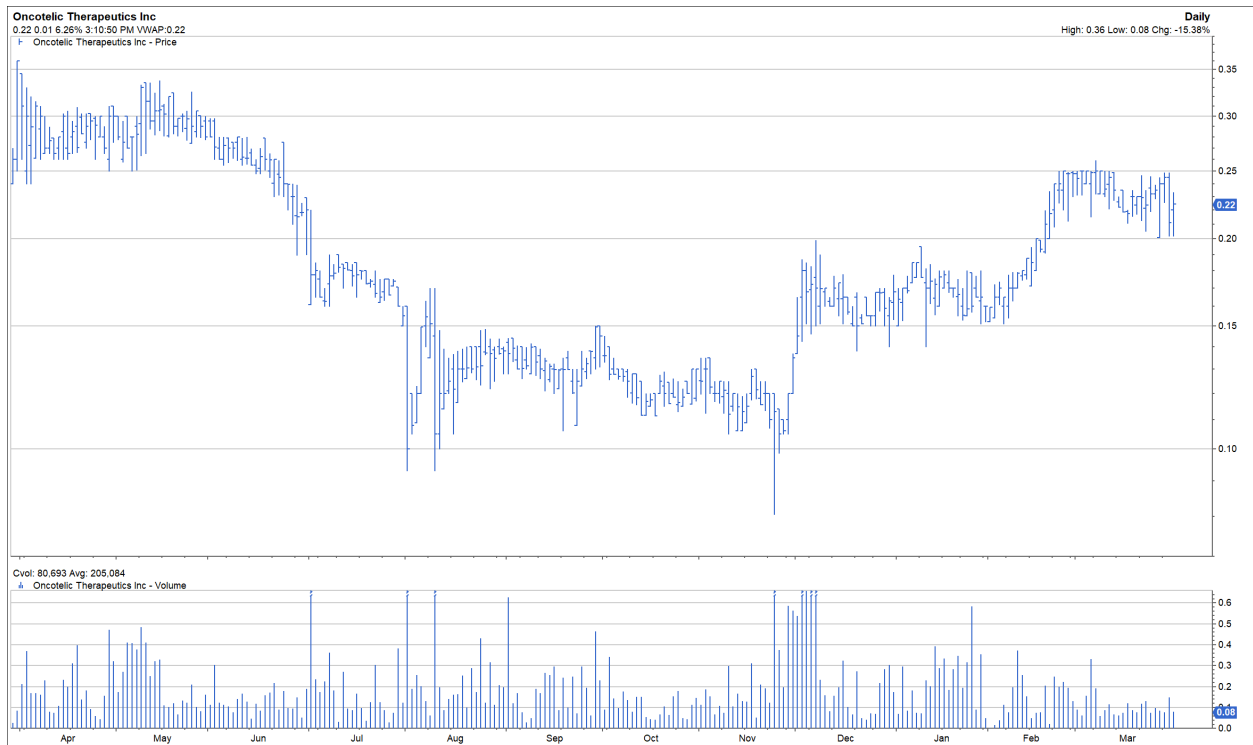
• 2020A	• (\$9,413)
• 2021E	• (\$10,544)
• 2022E	• (\$6,310)

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 artificial intelligence driven immuno-oncology company with a robust pipeline of first in class TGF-β immunotherapies for late-stage cancers such as gliomas, pancreatic cancer and melanoma.

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. 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 the potential value of the JV:

- 1) The discounted value of all future earnings was used for our price target (see Figure 2)
- 2) Scenario analysis with JV (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 2025 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 \$3.59 which we round up to \$4.00.

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

Discounted Earnings:		\$3.59
Year	EPS	Discounted EPS
2022	(0.02)	(0.02)
2023	(0.02)	(0.02)
2024	(0.02)	(0.02)
2025	0.10	0.07
Terminal Value:		2.17

Source: Litchfield Hills Research LLC

Scenario Analysis with JV

Looking to determine the range of value with the JV, it could range from \$0.63 to \$1.42 with the average of \$1.02

Figure 3 –Oncotelic Therapeutics, Inc. – Scenario Analysis With JV

	Low value	High Value
JV Market Cap	\$333MM	\$1,000MM
Low Ownership 35%	\$116.6MM	
High ownership 45%		\$450MM
Current Market Cap	\$79MM	\$79MM
Combined Market Cap	\$155.6	\$529MM
Implied share price	\$0.63	\$1.42

Source: Litchfield Hills Research LLC

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.

Company background

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

Figure 5 – Oncotelic Therapeutics, Inc. – Comp Table

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2023 Consensus Multiples (Except book multiple)		
					Market Cap / Sales	EV /Sales	Price to Book
TEVA-US	Teva Pharmaceutical (Adr)	\$8.56	9,553	31,954	0.57	1.99	0.86
APLS-US	Apellis Pharmaceuticals, Inc.	\$48.10	4,701	3,569	16.36	12.44	23.21
ROIV-US	Roivant Sciences Ltd.	\$4.78	3,308	1,746	62.44	12.05	
NGM-US	NGM Biopharmaceuticals, Inc.	\$15.77	1,231	860	45.28	31.97	4.11
ALBO-US	Albireo Pharma Inc	\$30.76	596	437	5.03	3.73	2.56
RIGL-US	Rigel Pharmaceuticals	\$3.13	537	439	4.25	3.47	14.97
SRRK-US	Scholar Rock Holding Corp.	\$13.40	473	316	31.81	21.45	5.08
CYDY-US	CytoDyn Inc.	\$0.46	318	341			
PLRX-US	Pliant Therapeutics, Inc.	\$7.31	264	69	83.21	24.57	2.45
6998-HK	Genor Biopharma Holdings Limited	\$0.52	261	(140)	8.94		2.55
SPPI-US	Spectrum Pharmaceuticals Inc	\$1.26	223	97	2.15	1.00	4.39
FBIO-US	Fortress Biotech, Inc.	\$1.42	141	2	0.93	0.03	2.33
	AVERAGE				23.68	12.44	8.47

Source: Litchfield Hills Research LLC and FactSet

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

Source: Company reports and Litchfield Hills Research LLC

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

December ending year	FY2022E	FY2021E	FY2020A	FY2019
Balance sheet				
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
Total Current Assets	1,178	663	616	273
Intangibles	800	840	873	925
Goodwill				
Other non-current assets	2,000	1,000	1,112	1,425
Total Assets	\$25,040	\$23,565	\$23,663	\$23,685
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
Total current liabilities	16,000	14,125	11,182	6,783
Conv. and Long Term Debt	0	0	0	0
Other non-current	0	0	0	0
Total Liabilities	16,000	14,125	11,182	6,783
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
Total stockholders' equity	9,040	9,440	12,481	16,902
Total Liabilities and equity	\$25,040	\$23,565	\$23,663	\$23,685

Source: Company reports and Litchfield Hills Research LLC

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

	2022E	2021E	2020A	2019A
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
Total Cash Flow	(\$275)	(\$41)	\$412	\$79

Source: Company reports and Litchfield Hills Research LLC

Disclosures:

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