

Action Summary – 3 March 2021

Analyst Theodore R. O'Neill – *MATN's COVID-19 treatment PulmoHeal™ study receives peer-review – Raising price target to \$4 from \$3*

- While it is good news that the world is getting vaccinated against COVID-19, COVID and its variants are here to stay and the need for treatment to prevent death is a race against time.
- MATN, in conjunction with Windlas Biotech Pvt. Ltd in India has been advancing Artemisinin in clinical trials as a cost-effective treatment for COVID-19. In January 2021 it released interim results that showed its use in the first 60 of its 120-person study showed the majority of the patients who took Artemisinin plus Standard of Care (SOC) recovered faster than those who received SOC alone.
- In February is published a preprint of its findings (not peer reviewed) using data from that first group of 60, detailing the improvement in recovery time
- On March 1, 2021, MATN announced it had published PulmoHeal™ clinical data against COVID-19 in two peer reviewed journals: The Journal of Clinical Investigation (London) and; Frontiers of Pharmacology. PulmoHeal™ consists of a mobile app called ArtiHealth™ powered by MATN's AI platform, which is a joint development with IBM's Watson Health Research division; a post-marketing platform (PMS) to crowd-source user experience for new applications and; the drug PulmoHeal™ which is derived from Artemisinin.
- While this does not change our estimates, the company continues to execute on the plan we articulated in our 7 December 2020 initiation
- Attractive valuation. The shares appear to us inexpensive on an absolute and relative basis compared to peers.

3/2 Closing price: \$0.22	Market cap: \$23 million	2022 P/E: NMF	2022 EV / Sales: 8.6
Shares outstanding: 89.6 million	Insider ownership: 36%	3-mo avg. trading volume: 313,352	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
4Q20E	<u>\$(0.02)</u>	<u>\$0</u>	<u>NMF</u>
FY20E	<u>\$(0.09)</u>	<u>\$1,741</u>	<u>NMF</u>
1Q21E	\$(0.02)	\$0	NMF
2Q21E	\$(0.01)	\$500	1%
3Q21E	\$(0.00)	\$1,000	NMF
4Q21E	<u>\$(0.00)</u>	<u>\$1,000</u>	<u>NMF</u>
FY21E	<u>\$(0.03)</u>	<u>\$2,500</u>	<u>NMF</u>
1Q22E	\$0.00	\$2,000	(5)%
2Q22E	\$0.00	\$2,000	(5)%
3Q22E	\$0.02	\$3,000	23%
4Q22E	<u>\$0.02</u>	<u>\$4,000</u>	<u>38%</u>
FY22E	<u>\$0.04</u>	<u>\$11,000</u>	<u>18%</u>

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

Cash balance (in thousands)

• 2020E	• \$167
• 2021E	• \$485
• 2022E	• \$6,100

Debt (in thousands)

• 2020E	• \$2,000
• 2021E	• \$2,200
• 2022E	• \$0

Adj. EBITDA (in thousands)

• 2020E	• (\$5,787)
• 2021E	• (\$975)
• 2022E	• \$6,175

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: Mateon was created by the recent reverse merger with Oncotelic, Inc., which became a wholly owned subsidiary of Mateon, thereby creating an immuno-oncology company dedicated to the development of first in class RNA therapeutics as well as small molecule drugs against cancer and infectious diseases.

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



Source: Refinitiv

Valuation Methodology

We believe MATN 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 2022 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 – Mateon Therapeutics, Inc. – Discounted Earnings Valuation

Discounted Earnings: \$3.59		
Year	EPS	Discounted EPS
2021	(0.03)	(0.03)
2022	0.05	0.04
2023	0.20	0.15
2024	0.30	0.20
2025	0.35	0.20
Terminal Value:		1.84

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 significant discount to peers (Figure 3) ranging from a discount of 88% to 93%. If the shares were to trade to our price target it would still have a valuation discount to its peers. Comparables can be found in Figure 4.

Figure 3 – Mateon Therapeutics, Inc. – Summary Discount to Peers

	2022 Sales Multiple	2022 EV / Sales
Average	29.63	18.61
MATN	2.12	2.29
Discount to peers	93%	88%

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

Company background

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

Figure 4 – Mateon Therapeutics, Inc. – Comp Table

Ticker	Company Name	3/1/21 Close	Market Cap \$MM	EV \$MM	2020 EV / Revenue	2022 Sales Multiple	GICS Industry Name
TEVA.TA	Teva Pharmaceutical Industries Ltd	\$10.80	11,840	36,617	X	X	Pharmaceuticals
ARNA.O	Arena Pharmaceuticals Inc	\$80.08	4,832	3,773	X	78.43	Biotechnology
APLS.O	Apellis Pharmaceuticals Inc	\$47.68	3,832	3,318	19.63	24.61	Biotechnology
CYDY.PK	Cytodyn Inc	\$4.38	2,620	2,641			Biotechnology
NGM.O	NGM Biopharmaceuticals Inc	\$27.15	1,997	1,709	18.83	20.67	Pharmaceuticals
SRRK.O	Scholar Rock Holding Corp	\$56.80	1,911	1,794	56.74	59.77	Biotechnology
PLRX.O	Pliant Therapeutics Inc	\$35.47	1,258	964		X	Pharmaceuticals
RIGL.O	Rigel Pharmaceuticals Inc	\$4.47	755	702	4.74	5.76	Biotechnology
ALBO.O	Albireo Pharma Inc	\$37.24	712	470	5.36	9.28	Biotechnology
SPPI.O	Spectrum Pharmaceuticals Inc	\$3.61	527	328	<u>6.38</u>	<u>8.86</u>	Biotechnology
	AVERAGE				<u>18.61</u>	<u>29.63</u>	
MATN.PK	Mateon Therapeutics Inc	\$0.26	23	25	2.29	2.12	Biotechnology
	MATN Discount to peers:				-88%	-93%	

To statistically improve the comparison, we Xed out the high and low value from each metric.

Source: Litchfield Hills Research LLC and Refinitiv Eikon

Figure 5 – Mateon Therapeutics, Inc. – Income Statement (\$000)

December ending year	2019A	2020E				2020E	2021E				2021E	2022E				2022E
(\$000)	Year	Q1A	Q2A	Q3A	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year
Total revenue	\$0	\$341	\$1,400	\$0	\$0	\$1,741	\$0	\$500	\$1,000	\$1,000	\$2,500	\$2,000	\$2,000	\$3,000	\$4,000	\$11,000
Cost of Goods	0	0	0	0	0	0	0	350	500	500	1,350	400	400	600	800	2,200
Gross Profit	0	341	1,400	0	0	1,741	0	150	500	500	1,150	1,600	1,600	2,400	3,200	8,800
SG&A	1,372	312	482	936	1,000	2,730	1,000	1,000	1,000	1,000	4,000	1,000	1,000	1,000	1,000	4,000
R&D	2,939	2,678	904	680	700	4,962	700	700	700	700	2,800	700	700	700	700	2,800
Total Operating Expenses	4,311	2,990	1,386	1,616	1,700	7,692	1,700	1,700	1,700	1,700	6,800	1,700	1,700	1,700	1,700	6,800
Operating Income	(4,311)	(2,649)	14	(1,616)	(1,700)	(5,951)	(1,700)	(1,550)	(1,200)	(1,200)	(5,650)	(100)	(100)	700	1,500	2,000
Total Other Items	(2,327)	(2,009)	568	(370)	(100)	(1,911)	100	500	1,000	1,000	2,600	100	500	1,000	1,000	2,600
Pre-Tax Income	(6,638)	(4,658)	582	(1,987)	(1,800)	(7,862)	(1,600)	(1,050)	(200)	(200)	(3,050)	0	400	1,700	2,500	4,600
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)	(\$1,800)	(\$7,862)	(\$1,600)	(\$1,050)	(\$200)	(\$200)	(\$3,050)	\$0	\$400	\$1,700	\$2,500	\$4,600
EPS, as reported	(\$0.11)	(\$0.05)	\$0.01	(\$0.02)	(\$0.02)	(\$0.09)	(\$0.02)	(\$0.01)	(\$0.00)	(\$0.00)	(\$0.03)	\$0.00	\$0.00	\$0.02	\$0.03	\$0.05
Diluted Shares Outstanding	59,958	84,917	94,737	88,965	89,000	89,405	90,000	90,000	90,000	90,000	90,000	90,000	93,000	93,000	93,000	92,250

Source: Company reports and Litchfield Hills Research LLC

Figure 6 – Mateon Therapeutics, Inc. – Balance Sheet (\$'000)

December ending year	FY2022E	FY2021E	FY2020E	FY2019
Balance sheet				
Current Assets				
Cash and S.T.I.	\$9,800	\$485	\$167	\$82
Accounts receivable	500	200	20	150
Inventories	0	0	0	0
Other assets	500	100	88	41
Total Current Assets	10,800	785	275	273
Intangibles	800	840	886	925
Goodwill				
Other non-current assets	2,000	1,500	1,190	1,425
Total Assets	\$34,663	\$24,188	\$23,414	\$23,685
Current Liabilities				
Accounts payable and accrued exp.	\$10,000	\$5,000	\$3,500	\$2,657
Contingent consideration	5,200	4,825	4,625	3,586
Other current liabilities	2,000	1,500	1,200	541
Total current liabilities	17,200	11,325	9,325	6,783
Conv. and Long Term Debt	0	0	0	0
Other non-current	0	0	0	0
Total Liabilities	17,200	11,325	9,325	6,783
Stockholders' Equity				
Preferred stock	3	3	3	3
Common stock	900	900	896	841
Additional paid-in-capital	35,000	35,000	32,200	28,186
Retained earnings	(18,440)	(23,040)	(19,990)	(12,127)
Cum. trans. adj. and treasury stock	0	0	980	0
Total stockholders' equity	17,463	12,863	14,089	16,902
Total Liabilities and equity	\$34,663	\$24,188	\$23,414	\$23,685

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – Mateon Therapeutics, Inc. – Cash Flow (\$'000)

	<u>2022E</u>	<u>2021E</u>	<u>2020E</u>	<u>2019A</u>
Net Income	\$4,600.00	(\$3,050.0)	(\$7,862.4)	(\$6,638.0)
Accounts receivable	(300.00)	(180.25)	130.00	(149.75)
Inventories	0.00	0.00	0.00	0.00
Other assets	(400.00)	(11.99)	(46.72)	(41.28)
Intangibles	40.00	46.05	38.53	51.42
Goodwill	0.00	(0.54)	0.00	(21,062.46)
Other non-current	(500.00)	(309.90)	234.66	344.55
Accounts payable and accrued exp.	5,000.00	1,500.00	843.34	2,656.67
Contingent consideration	375.00	0.00	0.00	2,625.00
Convertible debt	0.00	200.00	1,039.08	960.92
Other current liabilities	500.00	300.00	659.48	257.49
Conv. and Long Term Debt	0.00	0.00	0.00	0.00
Other non-current	0.00	0.00	0.00	0.00
Preferred stock	0.00	0.02	0.00	2.78
Common stock	0.00	3.98	55.32	772.26
Additional paid-in-capital	0.00	2,800.00	4,014.40	20,299.00
Non-controlling interest	0.00	(979.54)	979.54	0.00
Other				0.88
Total Cash Flow	<u>\$9,315.00</u>	<u>\$317.81</u>	<u>\$85.22</u>	<u>\$79.47</u>

Source: Company reports and Litchfield Hills Research LLC

Disclosures:

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