

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-β 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	\$(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 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



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
Premium to peers	5%	77%

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)

	2021	2021	Better/(worse) than forecast
	Q3E	Q3A	
Income Statement			
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 Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2022 Consensus Multiples (Except book multiple)		
					Market Cap / Sales	EV /Sales	Price to 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
	AVERAGE				<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
	OTLC-US Premium/(Discount) to peers:				5%	77%	-78%

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
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:

Analyst Certification

We, the Litchfield Hills Research Department, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject company and the underlying securities.

FINRA Compliant Research Report

We, the Litchfield Hills Research Department, hereby certify that this report is compliant with FINRA research rules 2241, 3110, the analyst is registered with FINRA and the report has been reviewed by a Supervisory Analyst.

MiFID II Compliant Research Report

Our research is classified as minor non-monetary benefit under MiFID II. This applies to all forms of transmission, including email, website and financial platforms such as Bloomberg, FactSet, S&P Global, Refinitiv, Wind and 13 others. We do not seek payment from the asset management community and do not have any execution function. Investors can continue to receive our research under the MiFID II regime without the need for a contract for services to be put in place. This applies to all forms of transmission, including email, website and financial platforms.

Litchfield Hills Research LLC Rating System

BUY: We expect the stock to provide a total return of 15% or more within a 12-month period.

HOLD: We expect the stock to provide a total return of negative 15% to positive 15% within a 12-month period.

SELL: We expect the stock to have a negative total return of more than 15% within a 12-month period.

Total return is defined as price appreciation plus dividend yield.

Other Disclosures

Litchfield Hills Research, LLC (“LHR”) is not a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission nor a member of Financial Industry Regulatory Authority. The principal of LHR and publisher of this report, Theodore R. O’Neill, is a registered representative of Ascendant Capital Markets, LLC (“Ascendant”), a registered broker-dealer and FINRA member firm. Ascendant considers Mr. O’Neill’s association with LHR to be an “outside business activity” and is disclosed as such with FINRA. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LHR or any divisions, subsidiaries or affiliates to any registration or licensing requirement within such jurisdiction.

All material presented in this report, unless specifically indicated otherwise, is under copyright to LHR and the subject company. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of LHR or the subject company. All trademarks, service marks and logos used in this report are trademarks, service marks, registered trademarks, or service marks of LHR or its affiliates. The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. LHR may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable, appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. LHR does not offer advice on the tax consequences of investment and you are advised to contact an independent tax adviser. LHR believes the information and opinions in the Disclosure Appendix of this report are accurate and complete. Information and opinions presented in this report were obtained or derived from sources LHR believes are reliable, but LHR makes no representations as to their accuracy or completeness.

Ownership and Material Conflicts of Interest

The analyst owns no shares of the subject company. The analyst and his family have no known material conflicts of interest in authoring this report. No employees of Ascendant Capital Markets, LLC own any material amount of OTLC stock or have any influence on the OTLC Board of Directors.

Investment Banking and Fees for Services

Litchfield Hills Research has not received compensation for advisory or investment banking services from the Company in the past 12 months. Ascendant Capital Markets, LLC has not received compensation for advisory or investment banking services from the Company in the past 12 months. Litchfield Hills Research LLC has received compensation from the subject company for distribution and investor targeting services from the Company. Ascendant Capital Markets, LLC has not received compensation for non-investment banking services from the Company in the past 12 months.

Market Making

Neither Litchfield Hills Research, LLC nor Ascendant Capital Markets, LLC makes a market in the subject company’s securities.

Additional information is available upon request. LHR accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to LHR. This report is not to be relied upon in substitution for the exercise of independent judgment.