

Action Summary – 25 August 2022

Analyst Theodore R. O'Neill – Better than expected 2Q22 – Reiterate Buy and \$4 PT

- **OTLC reported a better-than-expected 2Q22.** It reported an EPS of \$0.04 on no revenue versus our EPS and revenue estimates of a loss of \$0.00, on no revenue. There is no consensus. The \$0.04 favorable EPS variance was due to lower operating expenses as a result of those expenses now shifted to the JV and a one-time profit on the transfer of OT-101 assets, also to the JV.
- **JV, GMP Biotechnology continues to favorably impact OTLC:** As we reported in our March 31 research note, OTLC entered into a joint venture, or JV, with Dragon Overseas Capital Ltd. (Dragon Overseas) and GMP Biotechnology Ltd. (GMP Bio). Dragon Overseas and GMP Bio are affiliated with Golden Mountain Partners (GMP). GMP Bio also has a wholly owned subsidiary, Sapu Therapeutics, LLC, which in turn has two wholly owned subsidiaries, namely Sapu Bioscience, LLC and Sapu Holdings, LLC. The plan of the JV is to develop and ultimately market OT-101, individually and/or in combination with other products, along with its JV partners. Also, the JV is intended to go public through an IPO at some time in the future. OTLC owns 45% of the JV and on its public debut could add multiples to the company's market cap.
- As part of the JV transaction, OTLC reported a one-time profit of approximately \$16 million, primarily on the gain on transfer of OT-101 to the JV. It also saw substantial cost reductions due to the transfer of its payroll and operational costs related to OT-101. The results of the 2Q quarter allow the Company to focus on uplifting activities going forward.
- **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.

8/24 Closing price: \$0.09	Market cap: \$34 million	2023 P/E: NMF	2023 EV / Sales:20
Shares outstanding: 386 million	Insider ownership: 45%	3-mo avg. trading volume: >200,000	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	<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
4Q21A	<u>\$(0.01)</u>	<u>\$0</u>	<u>NMF</u>
FY21A	<u>\$(0.03)</u>	<u>\$0</u>	<u>NMF</u>
1Q22A	\$(0.01)	\$0	NMF
2Q22A	\$0.04	\$0	NMF
3Q22E	\$(0.00)	\$0	NMF
4Q22E	<u>\$(0.00)</u>	<u>\$0</u>	<u>NMF</u>
FY22E	<u>\$(0.02)</u>	<u>\$0</u>	<u>NMF</u>

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

Cash balance (in thousands)

• 2020A	• \$494
• 2021A	• \$589
• 2022E	• \$108

Debt (in thousands)

• 2020A	• \$4,401
• 2021A	• \$8,993
• 2022E	• \$9,000

Adj. EBITDA (in thousands)

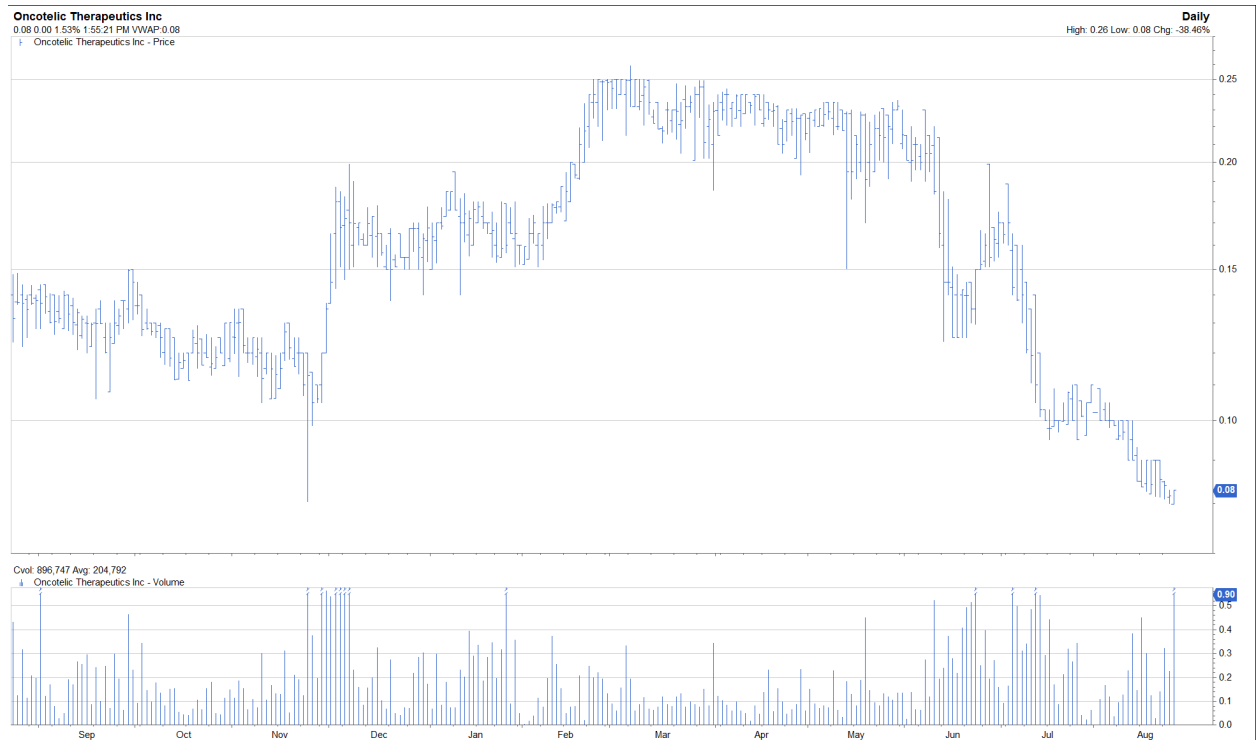
• 2020A	• (\$9,413)
• 2021E	• (\$10,427)
• 2022E	• \$8,490

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 Therapeutics Inc. (f/k/a Mateon Therapeutics, Inc.). Oncotelic is seeking to leverage its deep expertise in oncology drug development to improve treatment outcomes and survival of cancer patients with a special emphasis on rare pediatric cancers. Oncotelic has a rare pediatric designation for DIPG (OT-101), melanoma (CA4P), and AML (OXI 4503). Oncotelic also acquired PointR Data Inc. in November 2019.

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 \$3.63 which we round up to \$4.00.

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

Discounted Earnings:		\$3.63
Year	EPS	Discounted EPS
2022	0.02	0.02
2023	(0.02)	(0.02)
2024	(0.02)	(0.02)
2025	0.10	0.07
2026	0.20	0.11
2027	0.40	0.20
2028	0.56	0.24
2029	0.84	0.32
2030	0.87	0.28
2031	0.89	0.25
Terminal Value:		2.17

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

Here we are using multiple of sales because the company is not yet profitable. The shares sell at a discount to peers (Figure 3). If the shares were to trade to our price target it would have a valuation premium to peer averages, but it would not exceed the high end of the existing range. Comparables can be found in Figure 5.

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

	2023 Sales Multiple	2023 EV / Sales
Average	44.15	30.55
OTLC	18.40	19.90
Discount to peers	58%	35%

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 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), It reported an EPS of \$0.04 on no revenue versus our EPS and revenue estimates of a loss of \$0.00, on no revenue. There is no consensus. The \$0.04 favorable EPS variance was due to lower operating expenses as a result of those expenses now shifted to the JV and a one-time profit on the transfer of OT-101 assets, also to the JV.

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

	2022	2022	Better/(worse) than forecast
	Q2E	Q2A	
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	1,000.0	108.7	891.3
R&D	900.0	147.6	752.4
Total Expenses	1,900.0	256.3	1,643.7
Earnings (loss) from Operations	(1,900.0)	(256.3)	1,643.7
Total Other income/(expense)	0.0	16,227.0	16,227.0
Earnings before taxes	(1,900.0)	15,970.7	17,870.7
Tax expense/(benefit)	0.0	0.0	0.0
Net income	<u>(\$1,900.0)</u>	<u>\$15,970.7</u>	<u>\$17,870.7</u>
EPS	(\$0.00)	\$0.04	\$0.04
Diluted common shares	390,000	418,759	(28,759)

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	2023 Consensus Multiples (Except book multiple)		
					Market Cap / Sales	EV /Sales	Price to Book
TEVA-US	Teva Pharmaceutical (Adr)	\$10.06	11,391	32,571	0.70	2.07	0.86
APLS-US	Apellis Pharmaceuticals, Inc.	\$66.39	7,294	6,786	24.85	20.55	23.21
ROIV-US	Roivant Sciences Ltd.	\$3.65	2,568	1,477	26.27	15.08	
NGM-US	NGM Biopharmaceuticals, Inc.	\$16.16	1,299	991	44.40	33.19	4.11
PLRX-US	Pliant Therapeutics, Inc.	\$19.38	943	554	331.52	196.44	2.45
CYDY-US	CytoDyn Inc.	\$0.66	535	479			
SRRK-US	Scholar Rock Holding Corp.	\$9.31	481	91			5.08
ALBO-US	Albireo Pharma Inc	\$18.85	370	260	5.75	4.01	2.56
RIGL-US	Rigel Pharmaceuticals	\$1.72	297	248	2.34	1.94	14.97
SPPI-US	Spectrum Pharmaceuticals Inc	\$1.29	232	160	2.24	1.42	4.39
6998-HK	Genor Biopharma Holdings Limited	\$0.38	193	(146)	2.57	NMF	1.16
F BIO-US	Fortress Biotech, Inc.	\$1.04	112	33	0.88	0.29	2.33
	AVERAGE				<u>44.15</u>	<u>30.55</u>	<u>6.11</u>
OTLC-US	Oncotelic Therapeutics Inc (US Listing)	\$0.08	92	100	18.40	19.90	7.92
	OTLC-US Premium/(Discount) to peers:				-58%	-35%	29%

Source: Litchfield Hills Research LLC and FactSet

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

December ending year	2019A	2020A	2021A				2021A	2022E				2022E
	Year	Year	Q1A	Q2A	Q3A	Q4A	Year	Q1A	Q2A	Q3E	Q4E	Year
(\$000)												
Total revenue	\$0	\$1,741	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cost of Goods	0	0	0	0	0	0	0	0	0	0	0	0
Gross Profit	0	1,741	0	0	0	0	0	0	0	0	0	0
R&D	1,372	4,302	1,557	957	622	523	3,659	580	109	100	100	889
SG&A	2,939	5,023	481	2,807	1,187	992	5,467	3,764	148	140	140	4,192
Total Operating Expenses	4,311	9,326	2,038	3,764	1,809	1,515	9,126	4,344	256	240	240	5,081
Operating Income	(4,311)	(7,585)	(2,038)	(3,764)	(1,809)	(1,515)	(9,126)	(4,344)	(256)	(240)	(240)	(5,081)
Op. Margin												
Total Other Items	(2,327)	(1,918)	(765)	196	246	(1,069)	(1,391)	(746)	16,227	(1,000)	(1,000)	13,481
Pre-Tax Income	(6,638)	(9,503)	(2,803)	(3,568)	(1,563)	(2,584)	(10,517)	(5,090)	15,971	(1,240)	(1,240)	8,400
Taxes (benefit)	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
Net Income (loss)	(\$6,638)	(\$9,503)	(\$2,803)	(\$3,568)	(\$1,563)	(\$2,584)	(\$10,517)	(\$5,090)	\$15,971	(\$1,240)	(\$1,240)	\$8,400
EPS, as reported	(\$0.11)	(\$0.11)	(\$0.03)	(\$0.01)	(\$0.00)	(\$0.01)	(\$0.03)	(\$0.01)	\$0.04	(\$0.00)	(\$0.00)	\$0.02
Diluted Shares Outstanding	59,958	88,100	94,193	369,547	370,444	378,130	303,079	377,393	418,759	400,000	400,000	399,038

Source: Company reports and Litchfield Hills Research LLC

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

December ending year	FY2022E	FY2021A	FY2020A	FY2019A
Balance sheet				
Current Assets				
Cash and S.T.I.	\$108	\$589	\$494	\$82
Accounts receivable	500	20	20	150
Inventories	0	0	0	0
Other assets	500	19	102	41
Total Current Assets	1,108	627	616	273
Intangibles				
	0	822	873	925
Goodwill				
Other non-current assets	23,000	1,102	1,112	1,425
Total Assets	\$40,108	\$23,613	\$23,663	\$23,685
Current Liabilities				
Accounts payable and accrued exp.	\$3,200	\$3,496	\$3,127	\$2,657
Contingent consideration	2,825	2,625	2,625	2,625
Convertible debt	9,000	8,993	4,401	961
Other current liabilities	2,000	340	1,029	541
Total current liabilities	17,025	15,455	11,182	6,783
Conv. and Long Term Debt				
	0	0	0	0
Other non-current	0	0	0	0
Total Liabilities	17,025	15,455	11,182	6,783
Stockholders' Equity				
Preferred stock	3	0	3	3
Common stock	3,701	3,753	906	841
Additional paid-in-capital	42,000	35,224	32,493	28,186
Retained earnings	(22,621)	(31,021)	(21,630)	(12,127)
Cum. trans. adj. and treasury stock	0	203	709	0
Total stockholders' equity	23,083	8,158	12,481	16,902
Total Liabilities and equity	\$40,108	\$23,613	\$23,663	\$23,685

Source: Company reports and Litchfield Hills Research LLC

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

	2022E	2021A	2020A	2019A
Net Income	\$8,400	(\$10,517)	(\$9,503)	(\$6,638)
Accounts receivable	(\$480)	\$0	\$130	(\$150)
Inventories	\$0	\$0	\$0	\$0
Other assets	(\$481)	\$83	(\$61)	(\$41)
Intangibles	\$822	\$51	\$51	\$51
Goodwill	\$5,062	\$0	\$0	(\$21,062)
Other non-current	(\$21,898)	\$10	\$313	\$345
Accounts payable and accrued exp.	(\$296)	\$369	\$471	\$2,657
Contingent consideration	\$200	\$0	\$0	\$2,625
Convertible debt	\$7	\$4,592	\$3,440	\$961
Other current liabilities	\$1,660	(\$688)	\$488	\$257
Conv. and Long Term Debt	\$0	\$0	\$0	\$0
Other non-current	\$0	\$0	\$0	\$0
Preferred stock	\$3	(\$3)	\$0	\$3
Common stock	(\$52)	\$2,847	\$65	\$772
Additional paid-in-capital	\$6,776	\$2,731	\$4,307	\$20,299
Non-controlling interest	(\$203)	\$1,126	\$709	\$0
Other		(\$506)		\$1
Total Cash Flow	(\$481)	\$95	\$412	\$79

Source: Company reports and Litchfield Hills Research LLC

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