

## Repros Therapeutics (RPRX - \$ 14.02)

2Q14 – Uneventful Financial Reporting; and All Eyes Are on 305/ 304 Top-line Data in September and October, Respectively.

This morning RPRX reported 2Q14 financial results with net losses of (\$8.7MM) or (\$0.38)/share. The company ended 2Q14 with ~\$61MM cash, enough to support its operation deep into 2016, in our opinion.

- With a healthy balance sheet, the near-term financial performance is not the key investment focus of RPRX shares, in our view. The major value driver near term for investors is the report of the 305 topline results potentially in the first half of September. The 304 top-line results are scheduled to be available in the first half of October. The company also is scheduled to host an Analyst Day event toward the end of October. We remain optimistic that the study outcome will be positive and anticipate at the Analyst Day, management could provide more insights for the upcoming path and timeline for filing and potential commercialization strategy.
- As a reminder, the three co-primary endpoints of the 304/305 studies are: 1) percentage change from baseline in sperm concentration comparing Androxal to the leading U.S. testosterone replacement therapy; 2) proportion of men obtaining a testosterone level in the normal range; and 3) percentage of men that exhibit sperm >10 million/mL at the end of 16 weeks of dosing and testosterone in the normal range by comparing Androxal vs. testosterone gel and Androxal vs. placebo.
- Should 304/305 results be positive and with an NDA filing underway, we anticipate investors' focus will shift to a potential FDA expert panel meeting and PDUFA decision. Both should occur in 2H15. Further in 2015 and beyond, we also believe more development efforts, and investor interest, will be on Proellex development. Proellex in endometriosis Phase II study top-line results could possibly be available in 2H15. If RPRX starts a low oral dose Proellex in UF Phase II study (n=75) in 2014, the company could possibly report top-line data in 2H15.
- **Action.** We are reiterating our Buy rating and our \$32 target price to reflect the continued improved outlook of Androxal and the maturation of Proellex development. Our valuation is based on our P/E, and NPV-driven-and-probability adjusted sum-of-the-parts analyses.

### Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
<b>FY-14E</b>	-0.37A	-0.38A	-0.35	-0.29	-1.40	NM
<b>FY-13A</b>	-0.41	-0.38	-0.26	-0.31	-1.33	NM
<b>FY-12A</b>	-0.17	-0.21	-0.30	-0.47	-1.18	NM
<b>FY-11A</b>	-0.20	-0.30	-0.32	-0.22	-1.04	NM

Source: Laidlaw & Company estimates

Healthcare/Biotechnology

Ticker: **RPRX**  
Rating: **Buy**  
Price Target: **\$ 32.00**

### Trading Data:

Last Price (08/11/2014)	\$ 14.02
52-Week High (9/24/2013)	\$ 29.79
52-Week Low (8/1/2014)	\$ 12.61
Market Cap. (MM)	\$ 324
Shares Out. (MM)	23

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## Anticipated milestones in 2014 and beyond

Program	Indication	Event	Timing	Importance
Androxal	Secondary hypogonadism	Potential to release 1st Phase III (305) comparative studies results	4Q (Sep.) '14	*****
		Potential to release 2nd Phase III (304) comparative studies results	4Q (Oct.) '14	*****
		Potential NDA filing	4Q14	****
		FDA expert panel meeting	3Q15	*****
		Potential partnership or other business development activities	2014 / 2015	*****
		Potential approval for 2nd hypogonadism	4Q15 / 1Q16	*****
Proellex	Uterine Fibroids	Potentially to commence low dose oral Proellex Phase II study	3Q14	***
		Potentially to report top-line results from low dose oral Proellex Phase II study	2H15	***
		Potentially to determine low dose oral vs. vaginal Proellex as final format for Phase III trial	2H15	****
		Potentially to start a Phase III study	2015	*****
	Endometriosis	Possible to complete patient enrollment for Phase II study	Late 14 / 2015	***
		Possible to report Phase II study top-line results	2H15	****
		Analyst Day	Oct. 31, 2014	***

\*\*\*\* / \*\*\*\*\* Major catalyst event that could impact share price very significantly while \*\*\* event is more informative

Source: Laidlaw & Company estimates and company presentation.

## Major risks

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**Clinical risks of trial study failure could have significantly negative impact on RPRX share value.** Given that Androxal in secondary hypogonadism is the most advanced and most promising program in Repros' product portfolio, we believe the majority of RPRX share valuation (both assessed by us and the Street) resides in the potential clinical and regulatory success of this program. Despite a lower probability of clinical failure, in our opinion, a scenario that if the FDA requests significantly more difficult Phase III studies at the upcoming meeting and the company cannot accomplish such a task; could significantly reduce RPRX share value. As such, we view the outcome from the FDA discussion and report of the top-line results from the pivotal comparative trials (possibly in 4Q14) could be important binary events for RPRX shares.

**Market potential of Androxal in secondary hypogonadism is lower than projected.** With well-differentiated attributes, such as retaining spermatogenesis compared to marketed testosterone replacement products, coupled with the trend of increased prescription, and substantial unmet medical need; we believe the commercial outlook of Androxal could be substantial. However, given Androxal is a non-testosterone and competes in an environment of a well-entrenched TRT treatment paradigm, substantial and effective education efforts, in our opinion, are necessary to change physicians' prescribing habits and expand Androxal sales. The potential patent expiration of AndroGel could be an opportunity for Androxal but it also could become a challenge that limits Androxal's pricing flexibility. Overall, if our projection for the future market dynamics is incorrect, or the execution by the company (given the current management team has limited product commercialization experience), or potential licensing partner is inadequate; the revenue outlook for Androxal could disappoint.

**Androxal patent dispute could potentially affect the economics RPRX receives.** The company is currently in a legal dispute with Dr. Harry Fisch, who claims the two patents encompassing clomid as a treatment for hypogonadism. Despite the fact that the U.S. Patent and Trademark Office (PTO) recently reversed the rejections of Dr. Fisch's patent infringement claims, it might be too early or too uncertain, in our opinion, to determine the ultimate resolution. If such patents are not invalidated by the PTO or a court of competent jurisdiction, the company may be required to obtain a license, potentially for a fee, from the holder of such patents in order to develop Androxal further. Although we do not anticipate such a scenario would derail the development or commercial outlook of Androxal, we believe the economic reward to the company would be reduced modestly.

**Although promising, low dose Proellex and Proellex-V must still demonstrate proof-of-concept results.** Although the current clinical data regarding efficacy and safety from the low-dose oral Proellex and newly-

developed Proellex-V study are encouraging, it is still be too early to fully project the product's future in endometriosis and in uterine fibroids. In addition, it is still uncertain as which format of Proellex would be used for UF development going forward. Further, low dose oral Proellex in endometriosis Phase II study is still ongoing and we believe a positive efficacy and satisfactory safety profile are needed from the study to potentially to fully lift the clinical hold by the FDA to advance the program. Any negative outcomes could also a setback although Proellex only accounts for a minor portion of the RPRX valuation.

**Potential financing could dilute shareholders.** Although we estimate that the company's cash position could support operations, including R&D and M&S expenses, into 2016; the possibility exists that additional cash could be needed for other unexpected corporate development activities. If not from the non-dilutive sources, options could include a potentially-dilutive equity offering, of which could potentially affect current shareholders negatively due to dilution. However, we view such risk could be offset by the substantial value increase of the company's assets due to clinical advancement leading to commercialization.

Figure 1: Income Statement

Repros Therapeutics – Income Statement												
(\$ MM)	2011	2012	2013	1Q14	2Q14	3Q14E	4Q14E	2014E	2015E	2016E	2017E	2018E
<b>Revenue</b>												
Licensing fees	-	-	-	-	-	-	-	-	-	10.0	10.0	10.0
Product revenue	-	-	-	-	-	-	-	-	-	61.4	136.4	260.8
Research and development grants	-	-	-	-	-	-	-	-	-	-	-	-
Interest income	0.0	0.0	0.0	-	0.0	-	-	0.0	-	-	-	-
Gain on disposal of fixed assets	-	-	0.0	-	-	-	-	-	-	-	-	-
Other Income	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Revenue</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$71.4</b>	<b>\$146.4</b>	<b>\$270.8</b>
<b>Costs of goods</b>												
Gross revenue	-	-	-	-	-	-	-	-	0.0	6.1	13.6	26.1
Research and development	8.7	13.3	22.9	7.3	7.5	6.9	5.6	27.3	16.9	17.4	19.2	20.9
General and administrative	3.8	4.8	4.8	1.2	1.3	1.3	1.3	5.1	6.1	9.2	10.1	10.2
Sales and marketing	-	-	-	-	-	0.0	0.0	0.0	5.0	24.7	28.3	32.6
Interest expense and amortization of intangibles	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Operating Expenses</b>	<b>\$12.5</b>	<b>\$18.2</b>	<b>\$27.7</b>	<b>\$8.6</b>	<b>\$8.7</b>	<b>\$8.2</b>	<b>\$6.9</b>	<b>\$32.4</b>	<b>\$28.1</b>	<b>\$51.3</b>	<b>\$29.3</b>	<b>\$31.1</b>
<b>Operating Income (loss)</b>	<b>(\$12.5)</b>	<b>(\$18.2)</b>	<b>(\$27.7)</b>	<b>(\$8.5)</b>	<b>(\$8.7)</b>	<b>(\$8.2)</b>	<b>(\$6.9)</b>	<b>(\$32.4)</b>	<b>(\$28.1)</b>	<b>\$13.9</b>	<b>\$103.5</b>	<b>\$213.6</b>
Loss from continuing operations	-	-	-	-	-	-	-	-	-	-	-	-
Gain on disposal of discontinued operation	-	-	-	-	-	-	-	-	-	-	-	-
Net loss before cumulative effect of change in accounting principle	(12.5)	(18.2)	(27.7)	(8.5)	(8.7)	(8.2)	(6.9)	(32.4)	(28.1)	13.9	103.5	213.6
Cumulative effect of change in accounting principle	-	-	-	-	-	-	-	-	-	-	-	-
Income (loss) before tax expense	(12.5)	(18.2)	(27.7)	(8.5)	(8.7)	(8.2)	(6.9)	(32.4)	(28.1)	13.9	103.5	213.6
Income tax expense	-	-	-	-	-	-	-	-	-	4.7	35.2	72.6
<b>Net Incomes (Losses)</b>	<b>(\$12.5)</b>	<b>(\$18.2)</b>	<b>(\$27.7)</b>	<b>(\$8.5)</b>	<b>(\$8.7)</b>	<b>(\$8.2)</b>	<b>(\$6.9)</b>	<b>(\$32.4)</b>	<b>(\$28.1)</b>	<b>\$9.2</b>	<b>\$68.3</b>	<b>\$141.0</b>
Net Earnings (Losses) Per Share—Basic	(\$1.04)	(\$1.18)	(\$1.33)	(\$0.37)	(\$0.38)	(\$0.35)	(\$0.29)	(\$1.40)	(\$1.19)	\$0.38	\$2.79	\$5.68
Net Earnings (Losses) Per Share—Diluted	(\$1.04)	(\$1.18)	(\$1.33)	(\$0.37)	(\$0.38)	(\$0.35)	(\$0.29)	(\$1.40)	(\$1.19)	\$0.38	\$2.79	\$5.68
Shares outstanding—basic	12.0	15.3	20.8	23.0	23.1	23.3	23.5	23.2	23.6	24.0	24.4	24.8
Shares outstanding—diluted	12.0	15.3	20.8	23.0	23.1	23.3	23.5	23.2	23.6	24.0	24.4	24.8
<b>Margin Analysis (% of Revenue)</b>												
COGS				N.A.	N.A.	N.A.	N.A.	N.A.	10%	10%	10%	10%
R&D	434100%	444767%	254578%	366250%	372500%	N.A.	N.A.	1365779%	N.A.	24%	13%	8%
SG&A	190550%	160900%	53533%	61300%	62800%	N.A.	N.A.	255377%	N.A.	13%	7%	4%
Operating Income (loss)	-624550%	-605567%	-308011%	-427450%	-435200%	N.A.	N.A.	-1621056%	N.A.	20%	71%	79%
Pretax	0%	0%	0%	-427450%	-435200%	N.A.	N.A.	-1621056%	N.A.	0%	0%	0%
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	34%	34%	34%
Net Income	-624550%	-605567%	-308011%	-427450%	-435200%	N.A.	N.A.	-1621056%	N.A.	13%	47%	52%
<b>Financial Indicator Growth Analysis (Y/Y)</b>												
Licensing fees	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0%	0%
Product royalties	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	122%	91%
Research and development grants	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0%	0%	0%	0%
Interest income	N.A.	50%	167%	N.A.	100%	-100%	-100%	-75%	0%	0%	0%	0%
Total Revenue	-100%	50%	200%	100%	100%	-100%	-100%	-78%	-100%	N.A.	105%	85%
Research and development	199%	54%	72%	16%	23%	45%	-3%	19%	-38%	3%	10%	9%
General and administrative	67%	27%	0%	15%	7%	8%	-3%	6%	20%	50%	10%	1%
Sales and marketing								N.A.	0%	393%	15%	15%
Operating incomes	162%	45%	53%	16%	21%	37%	-3%	17%	-13%	-150%	643%	106%
Total Other Income, net	162%	45%	53%	16%	21%	37%	-3%	17%	-13%	-150%	643%	106%
Pretax Income	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Net Income	162%	45%	53%	16%	21%	37%	-3%	17%	-13%	-133%	643%	106%
EPS - Basic	76%	13%	13%	-8%	-1%	36%	-5%	5%	-15%	-132%	630%	103%
EPS - Diluted	76%	13%	13%	-8%	-1%	36%	-5%	5%	-15%	-132%	630%	103%
Shares outstanding—basic	48%	28%	36%	27%	22%	1%	2%	12%	2%	2%	2%	2%
Shares outstanding—diluted	48%	28%	36%	27%	22%	1%	2%	12%	2%	2%	2%	2%

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Source: Bloomberg LP; Company reports; Laidlaw & Company estimates.

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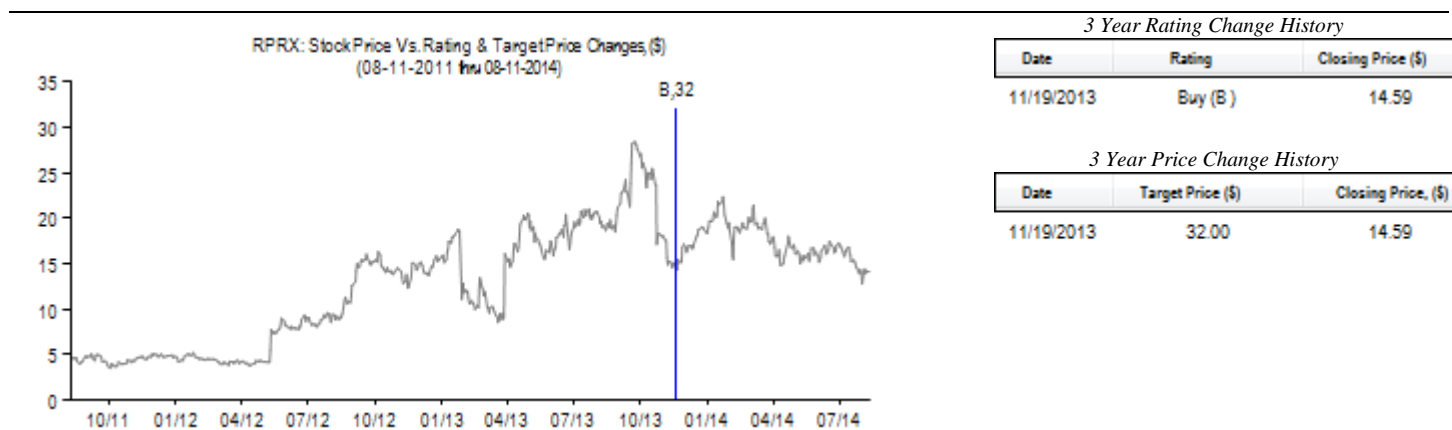
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