

EyePoint Pharmaceuticals (EYPT - \$1.22)

Transformative Acquisition of Icon to Showcase Commercial Expertise

EyePoint Pharmaceuticals (EYPT) formerly known as Psivida Corp. (PSDV) recently announced their transformative acquisition of Icon Biosciences as well as additional funding to ultimately become a specialty biopharmaceutical company that could potentially launch two ophthalmic products as soon as 1H19. This acquisition brings in Icon's Dexycu (dexamethasone intraocular suspension 9%), which was FDA approved (2/9/18) as the first product for postoperative inflammation. As PSDV was starting to run out of cash, it comes as little surprise that capital investment enabled this transformative acquisition. Essex Woodlands Healthcare Partners made equity investments of up to \$60.5M and SWK Holdings provided up to \$20M in debt financing. We have adjusted our model to account for potential launch of Dexycu in 1H19 as well as the significant increase in cost associated with it. More specifically, EYPT has guided to an increase of 30 sales reps. While launches always have their fair share of obstacles, we believe EYPT's acquisition fits their extensive commercial expertise. As a reminder, PSDV's NDA for Durasert three-year for non-infectious posterior segment uveitis was recently accepted (3/19/18) with a PDUFA date set for 11/5/18. With >4M cataract surgeries performed annually in the US and the potential to eliminate the need for patients to use an intensive regimen of drops (>105 drops over 4 weeks), we view this acquisition as a potential game changer that could double topline growth. We see the acquisition and financing as a real positives and are reiterating our Buy rating and increasing our price target from \$5 to \$6.

- **Icon acquisition, a natural fit for a commercially-focused management team.** With a management team with such extensive commercial experience and expertise, we see the acquisition of Dexycu as a real positive. This acquisition could enable EYPT to launch two products in 1H19 as Durasert 3-year's PDUFA has now been set for 11/5/18.
- **Dexycu to fulfill large unmet medical.** With >4M cataract surgeries in US annually, Dexycu priced ~\$450 and a current treatment paradigm (>105 drops over 4 months) that represent a large burden to patients, we see Dexycu as having a significant impact on EYPT's topline growth.
- **Reiterating our Buy rating, price target raised from \$5 to \$6.** Our price target is based on Durasert three-year US and royalties at \$3.75/share, Dexycu US at \$2/share and \$0.25/share for cash and tech.

Earnings Estimates: (per share)

(Jun)	1Q	2Q	3Q	4Q	FY	P/E
FY19E	(0.13)	(0.09)	(0.07)	(0.04)	(0.32)	NA
FY18E	(0.15)A	(0.13)A	(0.12)	(0.12)	(0.52)	NA
FY17A	(0.21)	(0.00)	(0.15)	(0.16)	(0.52)	NA
FY16A	NA	NA	NA	NA	(0.68)	NA

Source: Laidlaw & Company estimates

Healthcare / Biotechnology

Ticker:	EYPT
Rating:	Buy
Price Target: ↑Raise	\$6.00

Trading Data:

Last Price (02/07/2018)	\$1.22
52-Week High (05/30/2017)	\$2.45
52-Week Low (02/06/2018)	\$0.92
Market Cap. (MM)	\$55.2
Shares Out. (MM)	45.3

Analyst

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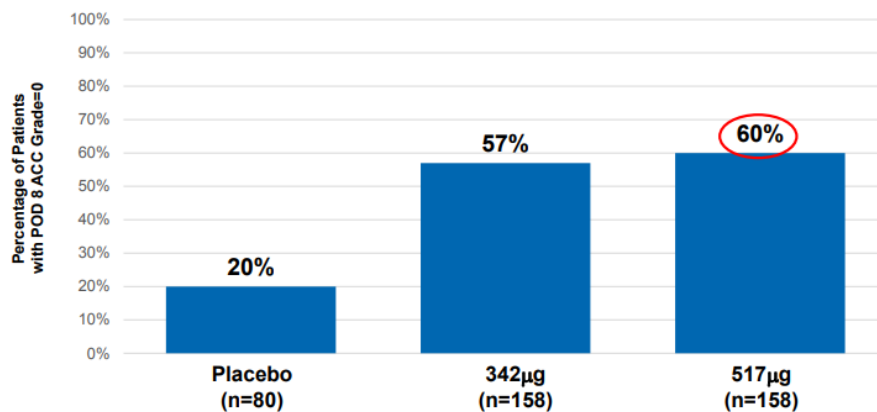
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Figure 1: Sum-of-the-Parts Analysis

Sum-of-the-parts valuation		
Segment	Valuation (000's)	Per share value
Durasert tree-year US	\$164,277	\$3.00
Durasert three-year royalties	\$40,776	\$0.75
Dexycu US sales	\$123,274	\$2.00
Cash (end '18) & tech value	\$17,155	\$0.25
	\$345,482	\$6.00
2018 fully diluted shares out (000)		56,618

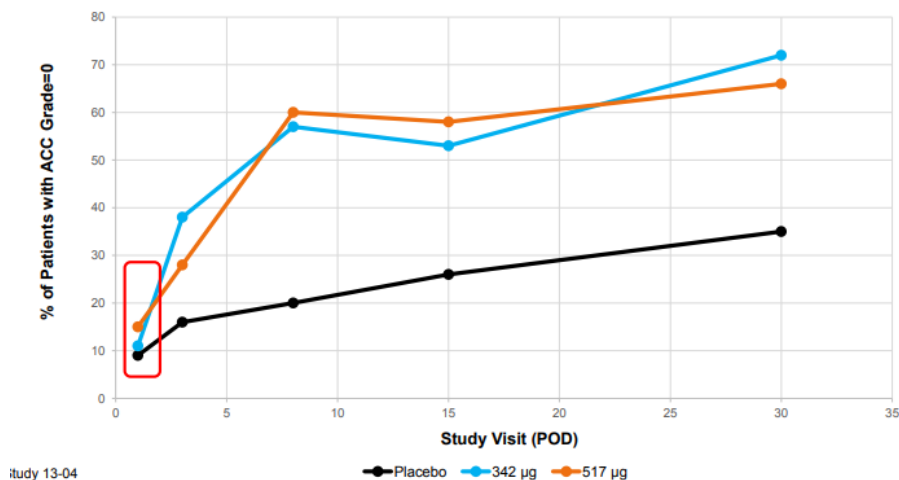
Source: Company Reports; Laidlaw and Company estimates

Figure 2: Percentage of patients with Anterior Chamber Cell (ACC) count of zero at day 8



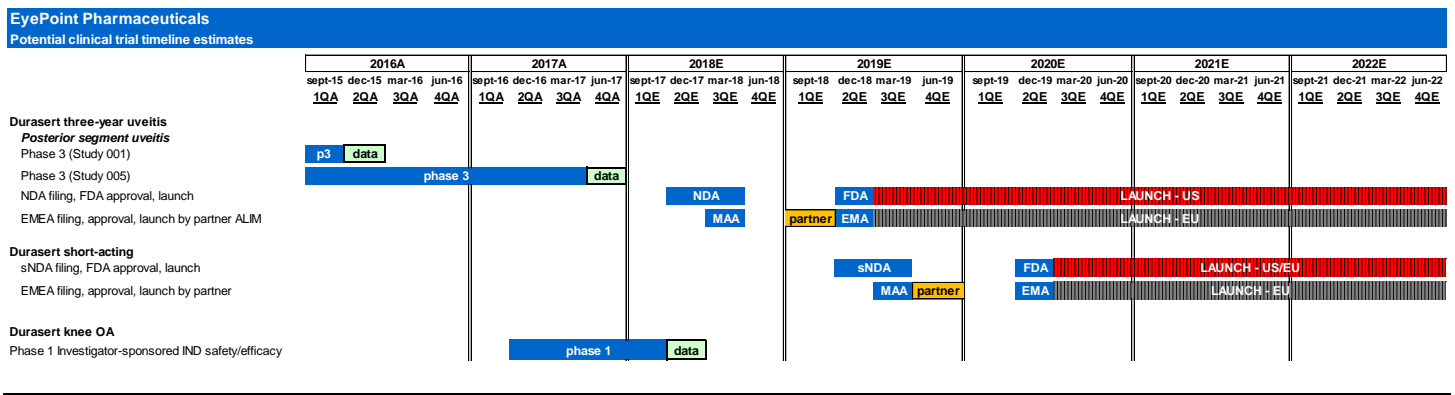
Source: Company Presentation

Figure 3: Proportion of Patients with clearing of ACC by visit – Rapid Reduction as of day 1



Source: Company Presentation

Figure 4: Potential Clinical Trial Timeline



Source: Company Reports; Laidlaw & Company estimates

Figure 5: Quarterly Income Statement

EyePoint Pharmaceuticals											
Quarterly income statement											
	2016A	2017E				2017E	2018E				2018E
	jun-16	sept-16	dec-16	mar-17	jun-17	jun-17	sept-17	dec-17	mar-18	jun-18	jun-18
(\$000 except per share)	Year	1QA	2QA	3QA	4QA	Year	1QA	2QA	3QE	4QE	Year
Revenues											
Collaborative R&D	398	34	5,702	372	461	6,569	140	461	300	300	1,201
Royalty income	1,222	243	269	218	240	970	245	472	370	397	1,484
Durasert 3 year US											
Durasert 3 year royalty uveitis EMEA											
Dexycu US											
Total Revenues	\$1,620	\$277	\$5,971	\$590	\$701	\$7,539	\$385	\$933	\$670	\$697	\$2,685
Expenses:											
COGS (% of US Revenue)			-	-	-	-					
Gross Margin	1,620	277	5,971	590	701	7,539	385	933	670	697	2,685
Research and development	14,381	4,178	3,165	3,324	4,213	14,880	3,819	4,269	4,500	4,500	17,088
General and administrative	9,013	3,285	2,900	2,426	2,624	11,235	2,572	2,472	2,500	2,500	10,000
Total operating expenses	23,394	7,463	6,065	5,750	6,837	26,115	6,391	6,741	7,000	7,000	27,088
Adj. Net Income/ (loss)	(21,774)	(7,186)	(94)	(5,160)	(6,136)	(18,576)	(6,006)	(5,808)	(6,330)	(6,303)	(24,403)
Interest and other income	72	24	27	20	20	91	23	26	(125)	(125)	(201)
(Loss) income before inc.taxes	(21,702)	(7,162)	(67)	(5,140)	(6,116)	(18,485)	(5,983)	(5,782)	(6,455)	(6,428)	(24,604)
income tax benefit (exp)	155	-									
NI/(loss) as reported	(21,547)	(7,162)	(67)	(5,140)	(6,116)	(18,485)	(5,983)	(5,782)	(6,455)	(6,428)	(24,604)
						-					
NI/(loss) as reported	(21,547)	(7,162)	(67)	(5,140)	(6,116)	(18,485)	(5,983)	(5,782)	(6,455)	(6,428)	(24,604)
Earning per Share (EPS)	(\$0.68)	(\$0.21)	(\$0.00)	(\$0.15)	(\$0.16)	(\$0.52)	(\$0.15)	(\$0.13)	(\$0.12)	(\$0.12)	(\$0.52)
Adj EPS ex-1x & non-cash											
Weighted avg. shares (000)	31,623	34,175	34,177	34,366	38,673	35,344	39,430	44,530	53,130	53,380	47,618
Fully diluted shares (000)	37,228	40,579	42,408	42,487	50,627	44,022	48,430	53,530	62,130	62,380	56,618

Source: Company Reports; Laidlaw & Company estimates

Figure 6: Annual Income Statement

EyePoint Pharmaceuticals						
Annual income statement						
(\$000's except per share)	2016A	2017A	2018E	2019E	2020E	Comments
Revenues						
Collaborative R&D	\$398	\$6,569	\$1,201	\$1,200	\$1,200	Durasert 3-year launch 3Q19
Royalty income	\$1,222	\$970	\$1,484	\$3,047	\$6,794	Dexycu launch 3Q19
Durasert 3 year US				\$5,100	\$19,664	
Durasert 3 year OUS royalty				\$69	\$874	
Dexycu				\$5,099	\$21,006	
Total Revenues	\$1,620	\$7,539	\$2,685	\$14,514	\$49,537	
COGS				2,721	5,944	
Gross margin	1,620	7,539	2,685	11,793	43,593	
R&D	14,381	14,880	17,088	19,500	21,500	
SG&A	9,013	11,235	10,000	15,300	23,500	Sales reps start 4Q19, n=8+30 to n=15+30 by 3Q20
Operating income/(loss)	(21,774)	(18,576)	(24,403)	(23,007)	(1,407)	
Interest expense	72	91	(201)	(500)	(500)	
Total other loss						
Adj-Net income/(loss)	(21,547)	(18,485)	(24,604)	(23,507)	(1,907)	
Series A convert premium						
NI/(loss) as reported	(21,547)	(18,485)	(24,604)	(23,507)	(1,907)	
Adj-EPS ex-non-cash	(\$0.68)	(\$0.52)	(\$0.52)	(\$0.32)	(\$0.02)	
EPS as reported						
Shares out (000)	31,623	35,344	47,618	73,643	81,472	
Fully diluted shares (000)	37,228	44,022	56,618	83,643	92,472	

Source: Company Reports; Laidlaw & Company estimates

Major Risks

Exogenous events could impact our outlook. We believe pharmaceutical companies have the least control over competitive, political, and regulatory risks. Although we have incorporated competitive assumptions into our forecasts, there may be other risks beyond the scope of our analysis. Changes in the drug reimbursement system, as well as any political or regulatory amendments, may significantly influence the earnings power of these companies.

Actual clinical results and the FDA's conclusions may deviate from expectations. Many of our assumptions are based on a review of incomplete clinical trial data available in the public domain. Often, our conclusions are drawn from early stage data, which may not be reflected by pivotal studies. Furthermore, the FDA's conclusions may not coincide with our own, materially changing our revenue and earnings assumptions.

Compliance issues, product recalls, and other mandates by regulatory authorities could materially change our expectations. Regulatory compliance issues, ranging from accounting irregularities to defective manufacturing practices, could materially change our assumptions and earnings outlook. Unanticipated product recalls and labeling changes could also have adverse consequences on our earnings assumptions.

Legal risks could lead to additional liabilities and revenue loss. In addition to the expenses incurred by patent challenges, product liability and other legal suits could occur and lead to additional liabilities and revenue loss, which could substantially change our financial assumptions.

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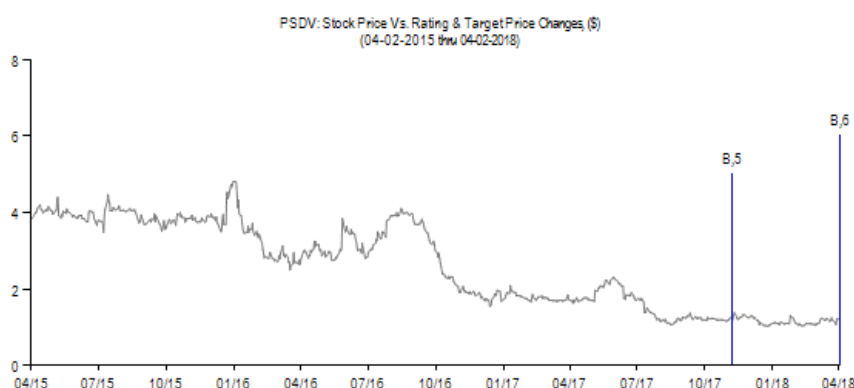
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Rating and Price Target Change History



3 Year Rating Change History

Date	Rating	Closing Price (\$)
11/08/2017	Buy (B)	1.23

3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
11/08/2017	5.00	1.23
04/02/2018	6.00	1.22*

* Previous Close 3/29/2018

Source: Laidlaw Company

Created by: Blue-Compass.net

Note: Company renamed Eyepoint Pharmaceuticals, Inc., ticker changed to EYPT on 04/02/2017

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			Investment Banking	Brokerage
Strong Buy (SB)	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
Buy (B)	Expected to outperform the sector average over 12 months.	65.38%	26.92%	3.85%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	0.00%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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April 2, 2018

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