

## Athenex Inc. (ATNX - \$17.49)

### 1Q18: Two Phase III Data Readouts are Fast Approaching with >260 Patients Already Enrolled in Oraxol Phase III Trial

This morning, ATNX reported 1Q18 financial results with a net loss of (\$7.3MM) vs. Laidlaw (\$2.7MM) and the Street (\$2.9MM) estimates. Net loss/share was (\$0.12) vs. (\$0.05) for Laidlaw and (\$0.07) for the Street. ATNX ended 1Q18 with cash of ~\$106MM, enough to support its operations into 4Q19, in our opinion

- Oraxol in mBC Phase III trial 2<sup>nd</sup> interim data readout is on track in 3Q18 with potential trial completion ahead of the initial schedule given the fast-paced patient enrollment.** ATNX reiterated that the 2<sup>nd</sup> interim data readout of the Oraxol in mBC Phase III trial is on track for 3Q18. Further, regardless whether the study might stop early if data is very robust after the 2<sup>nd</sup>-interim look, we believe the potential completion of entire trial could be ahead of our initial projected timeline (completion by 2Q19 with topline results in 4Q19) given the more rapid pace of patient recruitment (reaching ~260 recently with 360 needed). We estimate that patient enrollment could be completed in late 2018 or early 2019. ATNX could also start Oraxol clinical studies in China after the recent approval of the IND by the CFDA. Oraxol plus Cyramza in chemotherapy refractory gastric cancer Phase Ib trial is currently testing the 2<sup>nd</sup> dose cohort. ATNX also plans to start a clinical study evaluating Oraxol in angiosarcoma possibly in late 2018 or 2019. Oraxol in angiosarcoma has received an Orphan Drug designation.
- KX-01 (KX2-391) development updates.** Similar to Oraxol, KX-01 in actinic keratosis (AK) Phase III study is also on track for data readout in 3Q18. In addition, the final Phase III readout, including the 12-month follow-up will be available in 4Q19.
- Commercial operation updates.** ATNX reported healthy commercial product revenue of ~\$12.8MM for 1Q18. The product offerings currently include 19 products and 32 SKUs in APD and 5 products and 23 SKUs in APS. With potentially more to add, the company guided that the 2018 total revenue of \$100MM – \$125MM, which we estimate that will include ~50MM Ammirall payments and >\$64MM sales from various APIs, specialty injectables and compounded pharmaceuticals.
- Action.** We are reiterating our Buy rating and our target price of \$38 to reflect our bullish view on two promising lead late stage products and multiple potentially positive catalysts over the next 12 months. Our valuation is based on peer comparable, probability adjusted DCF and sum-of-the-parts analyses.

### Earnings Estimates: (per share)

(Dec)	1Q	2Q	3Q	4Q	FY	P/E
<b>FY-18E</b>	-0.12A	-0.51	-0.40	-0.07	-1.10	NM
<b>FY-17A</b>	-1.01	-0.88	-0.41	-0.49	-2.63	NM
<b>FY-16A</b>	-0.27	-0.31	-0.61	-0.96	-2.19	NM
<b>FY-15A</b>	N.A.	N.A.	N.A.	N.A.	-1.50	NM

Source: Laidlaw & Company estimates

### Healthcare/Biotechnology

Ticker:	<b>ATNX</b>
Rating:	<b>Buy</b>
Price Target:	<b>\$38.00</b>

### Trading Data:

Last Price (5/11/2018)	\$17.49
52-Week High (7/5/2017)	\$20.79
52-Week Low (6/14/2017)	\$11.21
Market Cap. (MM)	\$1,124
Shares Out. (MM)	49.961

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**Table 1: Estimated and reported 1Q18 results**

<b>1Q18 Estimates and Reported Results</b>			
<b>(\$,000)</b>	<b>Laidlaw Estimate</b>	<b>Actual</b>	<b>Consensus</b>
<b><u>Total revenue</u></b>	<b>\$45,607</b>	<b>\$37,836</b>	<b>\$35,100</b>
<b><u>Total op. profit (loss)</u></b>	<b>(\$2,768)</b>	<b>(\$7,873)</b>	<b>(\$11,400)</b>
R&D	\$23,141	\$21,303	
SG&A	\$12,687	\$13,080	
<b><u>EPS</u></b>	<b>(\$0.05)</b>	<b>(\$0.12)</b>	<b>(\$0.07)</b>
Net income (loss)	(\$2,689)	(\$7,298)	(\$2,900)

*Source: Bloomberg, SEC filings and Laidlaw and Co.*

## Anticipated milestones in 2018 and beyond

Product	Indication	Event	Timing	Importance
Oraxol	Metastatic breast cancer	Potential second interim (n=180) Phase III trial data readout	<b>3Q18</b>	<b>****</b>
		Potentially completed patient enrollment for the Phase III study	<b>2Q19</b>	<b>***</b>
		Potential topline Phase III trial data readout	<b>4Q19</b>	<b>****</b>
	Angiosarcoma	Potentially start Phase I/II trial	<b>2H18/2019</b>	<b>***</b>
KX-01	Actinic keratosis (AK)	Potential topline Phase III trial data readout	<b>3Q18</b>	<b>****</b>
		Potential NDA filing	<b>4Q18</b>	<b>***</b>
		Potential approval	<b>2H19</b>	<b>****</b>
Additional pipeline development of the Orascovery platform	Oncology	Potentially advancing into Phase I studies	<b>2018</b>	<b>***</b>

\*\*\*\* / \*\*\*\*\* 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 study failure could have a major negative impact on ATNX share value.** Despite ATNX's two lead products have demonstrated different degrees of promising efficacy and safety, clinical risks remain for either drug or future pipeline products as they might fail in the late stage clinical trials. For Oraxol, it is still too early to determine whether the drug can demonstrate a better safety or more efficacious vs. IV paclitaxel given the superiority in ORR is the primary endpoint of the Phase III trial. Further, the outcome might not be available until the topline data readout later unless the DSMB has decided to un-blind the results. Although the risk-reward profile of KX-01 in AK could be more favorable with reported positive Phase II results, it remains possible that the Phase III trial fails due to recognized and unidentifiable factors. Since the major value drivers for drug development company is the success of late stage clinical trials and drug approvals by regulatory agencies, unable to achieve such goal would usually impair the share value very significantly.

**Commercial risks remain difficult to handicap.** Although the potential benefits of ATNX's products in development can be easily recognized and appreciated, it is still too early to determine their commercial potential more accurately. For Oraxol, the balance between the safety and efficacy would likely to determine uptake of the drug by physicians and patients. A safer but less robust medication might not gain greater market shares since eradication of cancer cells remain the main objective of a cancer therapy. In addition, various types of modified chemotherapies are in development globally, while novel non-chemo treatment modalities are coming to the market. Such rapidly evolving cancer treatment market could further limit the market expansion of Oraxol. For KX-01, given the current AK topical treatment market has multiple lower cost medications available, it might be challenging for a more premium-priced product to gain greater market shares despite the drug might be better overall. Together, if the company's sales substantially fall short, we believe shareholder disappointment could negatively impact the company's valuation.

**Yet-to-be-clinically-validated technology platforms could impact on future pipeline developments.** Although ATNX's two technology platforms: Orascovey and Src kinase inhibition, have helped to create promising drug candidates currently in development, it remains too early to judge the validity of the platform of whether they can generate approvable clinical therapeutics. If such validation cannot be achieved, the value of these platforms could be in question. Such scenario can also diminish shareholder value.

**Commercial infrastructure might not create high margin for ATNX unless it starts selling proprietary products.** Although ATNX's commercial infrastructure could provide positive strategic value near term as well as later when the company's proprietary products are approved and launched, it remains uncertain as whether this scenario could be realized in a reasonable timeframe. If proprietary high margin products are not available for long period, the valuation

metric of the company could be shifted to the lower multiples specialty pharma group. As such, the shareholders might not gain the potential upsides anticipated.

**Additional financings could dilute shareholder value.** The company had ~\$106MM total cash currently. As such, ATNX would most likely need more financial resources going forward if they want to expand and further develop their pipeline unless the company can successfully explore non-dilutive financial sources. With additional equity offerings, the value of current shareholder might be reduced unless the share price increase if the upsides created due to greater financial source could offset the dilution of current shareholders.

Figure 1: Income Statement

Athenex Inc. – Income Statement															
(\$'000)	2015	2016	2017	1Q18	2Q18E	3Q18E	4Q18E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
<b>Revenue</b>															
Oraxol revenues										95,430	222,146	385,352	574,494	775,746	959,574
KX-01 in actinic keratosis revenues										12,682	33,440	52,890	71,198	92,785	114,401
<b>Total proprietary product revenues</b>	0	0	0	0	0	0	0	0	0	<b>108,112</b>	<b>255,586</b>	<b>438,242</b>	<b>645,692</b>	<b>868,530</b>	<b>1,073,975</b>
Other product revenues	12,816	19,394	36,106	12,836	16,045	17,489	18,014	64,384	70,178	72,985	75,905	78,941	82,099	85,383	88,798
License fees and consulting revenue	314	392	1,105	25,000	120	125	25,130	50,375	501	511	521	532	542	553	564
Deferred revenue						5,000		5,000							
Grant revenue	814	765	832	0	480	520	580	1,580	330	333	337	340	343	347	350
<b>Total revenue</b>	<b>13,944</b>	<b>20,551</b>	<b>38,043</b>	<b>37,836</b>	<b>16,645</b>	<b>23,134</b>	<b>43,724</b>	<b>121,339</b>	<b>71,009</b>	<b>181,942</b>	<b>332,349</b>	<b>518,054</b>	<b>728,677</b>	<b>954,813</b>	<b>1,163,688</b>
<b>COGS</b>	<b>13,153</b>	<b>19,718</b>	<b>25,122</b>	<b>11,326</b>	<b>13,157</b>	<b>14,166</b>	<b>14,411</b>	<b>53,060</b>	<b>56,143</b>	<b>58,396</b>	<b>60,739</b>	<b>63,176</b>	<b>65,710</b>	<b>68,346</b>	<b>71,086</b>
<b>Total gross profit</b>	<b>791</b>	<b>833</b>	<b>12,921</b>	<b>26,510</b>	<b>3,488</b>	<b>8,968</b>	<b>29,313</b>	<b>68,279</b>	<b>14,867</b>	<b>123,546</b>	<b>271,610</b>	<b>454,878</b>	<b>662,966</b>	<b>886,466</b>	<b>1,092,601</b>
Research and development	24,463	60,624	76,797	21,303	22,368	20,355	19,724	83,750	97,988	101,907	119,231	127,578	132,681	128,700	115,830
Selling, general, and administrative expenses	27,036	25,956	46,112	13,080	13,472	13,877	14,293	54,722	59,647	76,348	81,692	85,777	90,066	94,569	99,297
<b>Total operating expenses</b>	<b>51,499</b>	<b>86,580</b>	<b>122,909</b>	<b>34,383</b>	<b>35,841</b>	<b>34,232</b>	<b>34,017</b>	<b>138,472</b>	<b>157,635</b>	<b>178,255</b>	<b>200,924</b>	<b>213,355</b>	<b>222,746</b>	<b>223,269</b>	<b>215,128</b>
<b>Operating Incomes (losses)</b>	<b>(50,708)</b>	<b>(85,747)</b>	<b>(109,988)</b>	<b>(7,873)</b>	<b>(32,352)</b>	<b>(25,264)</b>	<b>(4,704)</b>	<b>(70,193)</b>	<b>(142,768)</b>	<b>(54,709)</b>	<b>70,686</b>	<b>241,524</b>	<b>440,220</b>	<b>663,197</b>	<b>877,474</b>
<b>Other Income/(Expense)</b>															
Interest expense (income)	1	1,891	6,108	(227)	125	110	98	106	117	128	141	155	171	188	207
Unrealized loss on derivative liability	0	533	15,411	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total other income (expense), net</b>	<b>1</b>	<b>2,424</b>	<b>21,519</b>	<b>(227)</b>	<b>125</b>	<b>110</b>	<b>98</b>	<b>106</b>	<b>117</b>	<b>128</b>	<b>141</b>	<b>155</b>	<b>171</b>	<b>188</b>	<b>207</b>
<b>Pretax income</b>	<b>(50,709)</b>	<b>(88,171)</b>	<b>(131,507)</b>	<b>(7,646)</b>	<b>(32,477)</b>	<b>(25,374)</b>	<b>(4,802)</b>	<b>(70,299)</b>	<b>(142,651)</b>	<b>(54,581)</b>	<b>70,827</b>	<b>241,679</b>	<b>440,391</b>	<b>663,385</b>	<b>877,680</b>
Tax on income	(54)	(265)	85	(307)	25	26	29	(227)	100	(26,206)	(89,421)	(162,945)	(245,452)	(324,742)	
<b>Net Income (Loss)</b>	<b>(50,655)</b>	<b>(87,906)</b>	<b>(131,396)</b>	<b>(7,339)</b>	<b>(32,502)</b>	<b>(25,400)</b>	<b>(4,831)</b>	<b>(70,072)</b>	<b>(142,751)</b>	<b>(54,691)</b>	<b>97,033</b>	<b>331,100</b>	<b>603,335</b>	<b>908,837</b>	<b>1,202,422</b>
net loss attributable to non-controlling interests	(55)	(191)	(226)	(41)	(42)	(39)	(40)	(162)	(161)	(163)	(164)	(166)	(168)	(169)	(171)
<b>Net loss attributable to Athenex</b>	<b>(50,600)</b>	<b>(87,715)</b>	<b>(131,170)</b>	<b>(7,298)</b>	<b>(32,460)</b>	<b>(25,361)</b>	<b>(4,791)</b>	<b>(69,910)</b>	<b>(142,590)</b>	<b>(54,528)</b>	<b>97,197</b>	<b>331,266</b>	<b>603,503</b>	<b>909,006</b>	<b>1,202,593</b>
Unrealized gain (loss) on investment, net of income taxes	91	(33)	(26)	0	2	2	4	8	8	8	8	8	8	8	8
Foreign currency translation adjustment, net of income taxes	(397)	(1,048)	1,184	0	210	197	194	601	915	924	933	943	952	962	971
<b>Net Income (Loss)</b>	<b>(50,906)</b>	<b>(88,796)</b>	<b>(130,012)</b>	<b>(7,298)</b>	<b>(32,248)</b>	<b>(25,162)</b>	<b>(4,593)</b>	<b>(69,301)</b>	<b>(141,667)</b>	<b>(53,596)</b>	<b>98,139</b>	<b>332,217</b>	<b>604,463</b>	<b>909,976</b>	<b>1,203,573</b>
Basic and diluted net loss per share	(\$1.50)	(\$2.19)	(\$2.63)	(\$0.12)	(\$0.51)	(\$0.40)	(\$0.07)	(\$1.10)	(\$2.03)	(\$0.77)	\$1.37	\$4.62	\$8.37	\$12.52	\$16.45
Shares outstanding: basic and undiluted	33,766	40,121	49,961	63,276	63,576	63,876	64,126	63,713	70,126	70,626	71,126	71,626	72,126	72,626	73,126
<b>Margin Analysis (% of Sales/Revenue)</b>															
Costs of goods	94%	96%	66%	83%	82%	81%	80%	44%	80%	32%	18%	12%	9%	7%	6%
R&D	175%	295%	202%	56%	134%	88%	45%	69%	138%	56%	36%	25%	18%	13%	10%
SG&A	194%	126%	121%	35%	81%	60%	33%	45%	84%	42%	25%	17%	12%	10%	9%
Operating Income (loss)	-364%	-417%	-289%	-21%	-194%	-109%	-11%	-58%	-201%	-30%	21%	47%	60%	69%	75%
Pretax	-364%	-429%	-346%	-20%	-195%	-110%	-11%	-58%	-201%	-30%	21%	47%	60%	69%	75%
Tax Rate	37%	37%	37%	37%	37%	37%	37%	37%	37%	37%	37%	37%	37%	37%	37%
Net Income	-363%	-427%	-345%	-19%	-195%	-110%	-11%	-58%	-201%	-30%	29%	64%	83%	95%	103%
<b>Financial Indicator Growth Analysis (YoY%)</b>															
Total Revenue	47%	85%	726%	262%	65%	194%	219%	-41%	156%	83%	56%	41%	31%	22%	
Gross Profit	5%	1451%	1422%	662%	52%	510%	428%	-78%	731%	120%	67%	46%	34%	23%	
Cost of Goods	50%	27%	299%	218%	75%	43%	111%	6%	4%	4%	4%	4%	4%	4%	
R&D	148%	27%	-19%	27%	70%	-5%	9%	17%	4%	17%	7%	4%	-3%	-10%	
SG&A	-4%	78%	33%	-23%	34%	16%	19%	9%	28%	7%	5%	5%	5%	5%	
Operating Income (Losses)	68%	42%	-5%	15%	53%	3%	13%	14%	13%	13%	6%	4%	0%	-4%	
Pretax Income	74%	49%	-81%	-16%	9%	-83%	-47%	103%	-62%	-230%	241%	82%	51%	32%	
Net Income	74%	46%	-82%	-16%	9%	-84%	-47%	104%	-62%	-283%	239%	82%	51%	32%	
EPS	46%	20%	-89%	-42%	-3%	-85%	-58%	85%	-62%	-277%	238%	81%	50%	31%	

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

## DISCLOSURES:

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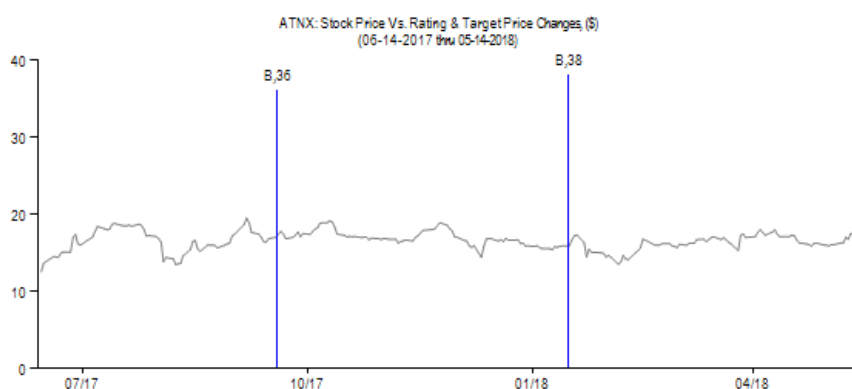
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*Additional information available upon request.*

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#### Rating and Price Target Change History



#### 3 Year Rating Change History

Date	Rating	Closing Price (\$)
09/19/2017	Buy (B )	17.42

#### 3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
09/19/2017	36.00	17.42
01/16/2018	38.00	15.95

Source: Laidlaw & Company

Created by: Blue-Compass.net

Laidlaw & Company Rating System*		% of Companies Under Coverage With This Rating	% of Companies for which Laidlaw & Company has performed services for in the last 12 months	
			Investment Banking	Brokerage
<b>Strong Buy (SB)</b>	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
<b>Buy (B)</b>	Expected to outperform the sector average over 12 months.	66.67%	25.93%	3.70%
<b>Hold (H)</b>	Expected returns to be in line with the sector average over 12 months.	0.00%	0.00%	0.00%
<b>Sell (S)</b>	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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**NOTES:**