

## EyePoint Pharmaceuticals (EYPT - \$2.33)

Healthcare / Biotechnology

### Quarter in Line, EYPT Quickly Approaching Commercial Stage

EYPT reported their FY3Q18 last night with a slight beat with EPS (\$0.10) vs. our anticipated (\$0.12) once adjusted for the non-cash change in fair value. Although not yet considered an earnings story, that could soon change as we anticipate the launch of two ophthalmic products as soon as 1H19 following their recent transformative acquisition of Icon Biosciences. As a reminder, the recent acquisition brings in Icon's Dexycu (dexamethasone intraocular suspension 9%), which was FDA approved on 2/9/18 as the first product for postoperative inflammation. With >4M cataract surgeries performed annually in the US and the potential to replace the need to use >105 drops/month, we believe Dexycu could fill a significant unmet need. We are encouraged by management's strong commercial background and preparation efforts so far. EYPT is soon to sign an agreement with a contract sales organization (CSO). They are close to extending an offer to national sales director, and have hired a VP of marketing. They also should shortly have a head of market access as well as a head of medical affairs (responsible for MSLs). Additionally, EYPT's NDA for Yutiq (Durasert three-year for non-infectious posterior segment uveitis was accepted on 3/19/18 with a PDUFA date set for 11/5/18. As the Icon acquisition brought in equity investments of up to \$60.5M from Essex Woodlands Healthcare Partners (2<sup>nd</sup> tranche potential approval on 6/22/18) as well as up to \$20M in debt financing from SWK Holdings, we believe EYPT is well positioned to potentially launch these two products in 1H19. We are reiterating our Buy rating and \$6 price target.

Ticker:	EYPT
Rating:	<b>Buy</b>
Price Target:	<b>\$6.00</b>

#### Trading Data:

Last Price (05/08/2018)	\$2.33
52-Week High (05/02/2018)	\$2.88
52-Week Low (04/02/2018)	\$1.07
Market Cap. (MM)	\$968.7
Shares Out. (MM)	37.6

- **Quarter mostly in line with expectations, not quite an earnings story just yet.** While adjusted EPS (ex non-cash) came in at (\$0.10) vs our anticipated (\$0.12), we don't quite consider EYPT an earnings story. Nonetheless, with potentially two product launches in 1H19, EYPT is well on its way to becoming a sustainable growth company.
- **Hard to overstate importance of catalysts in 2H18.** In addition to potentially gaining approval of the second tranche investment at the 6/22/18 meeting, EYPT must continue preparations for commercialization, secure pass-through reimbursement for Dexycu and hopefully obtain FDA approval for Yutiq (PDUFA 11/5/18).
- **Reiterating our Buy rating and \$6 price target.** Our price target is based on Durasert three-year US and royalties at \$3.25/share, Dexycu US at \$2.5/share and \$0.25/share for cash and tech.

#### Earnings Estimates: (per share)

(Jun)	1Q	2Q	3Q	4Q	FY	P/E
<b>FY19E</b>	(0.15)	(0.13)	(0.10)	(0.06)	(0.45)	NA
<b>FY18E</b>	(0.15)A	(0.13)A	(0.10)A	(0.14)	(0.52)	NA
<b>FY17A</b>	(0.21)	(0.00)	(0.15)	(0.16)	(0.52)	NA
<b>FY16A</b>	NA	NA	NA	NA	(0.68)	NA

#### Analyst

Francois Brisebois, MSc/ Specialty  
Pharma & Biotech  
(857) 317-5362  
fbrisebois@laidlawltd.com

Source: Laidlaw & Company estimates

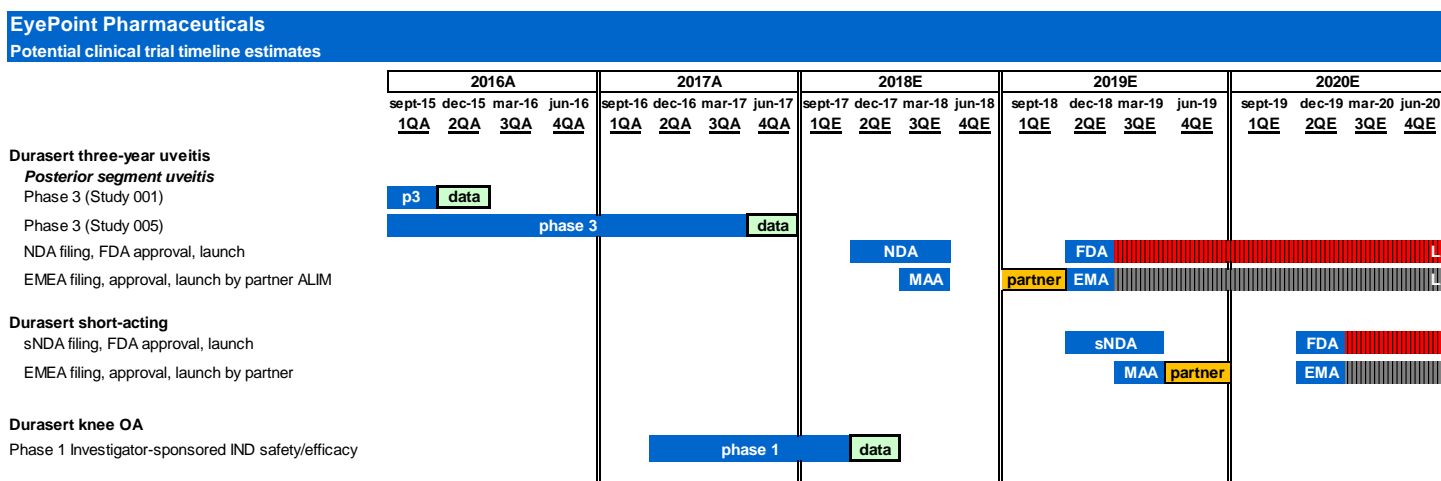
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**Figure 1: Sum-of-the-Parts Analysis**

Sum-of-the-parts valuation		
Segment	Valuation (000's)	Per share value
Durasert tree-year US	\$126,900	\$2.50
Durasert three-year royalties	\$40,776	\$0.75
Dexycu US sales	\$123,274	\$2.50
Cash (end '18) & tech value	\$18,692	\$0.25
	\$309,642	<b>\$6.00</b>
2018 fully diluted shares out (000)		52,875

Source: Company Reports; Laidlaw and Company estimates

Figure 2: Potential Clinical Trial Timeline



Source: Company Reports; Laidlaw & Company estimates

Figure 3: Quarterly Income Statement

EyePoint Pharmaceuticals										
Quarterly income statement										
	2017E				2017E jun-17 Year	2018E				2018E jun-18 Year
	sept-16 1QA	dec-16 2QA	mar-17 3QA	jun-17 4QA		sept-17 1QA	dec-17 2QA	mar-18 3QA	jun-18 4QE	
(\$000 except per share)										
<b>Revenues</b>										
Collaborative R&D	34	5,702	372	461	6,569	140	461	524	300	1,425
Royalty income	243	269	218	240	970	245	472	404	397	1,518
Durasert 3 year US										
Durasert 3 year royalty uveitis EMEA										
Dexycu US										
<b>Total Revenues</b>	<b>\$277</b>	<b>\$5,971</b>	<b>\$590</b>	<b>\$701</b>	<b>\$7,539</b>	<b>\$385</b>	<b>\$933</b>	<b>\$928</b>	<b>\$697</b>	<b>\$2,943</b>
<b>Expenses:</b>										
COGS (% of US Revenue)		-	-	-	-					
<b>Gross Margin</b>	<b>277</b>	<b>5,971</b>	<b>590</b>	<b>701</b>	<b>7,539</b>	<b>385</b>	<b>933</b>	<b>928</b>	<b>697</b>	<b>2,943</b>
Research and development	4,178	3,165	3,324	4,213	14,880	3,819	4,269	3,325	4,500	15,913
General and administrative	3,285	2,900	2,426	2,624	11,235	2,572	2,472	2,281	2,500	10,000
<b>Total operating expenses</b>	<b>7,463</b>	<b>6,065</b>	<b>5,750</b>	<b>6,837</b>	<b>26,115</b>	<b>6,391</b>	<b>6,741</b>	<b>5,606</b>	<b>7,000</b>	<b>25,913</b>
<b>Operating Income/ (loss)</b>	<b>(7,186)</b>	<b>(94)</b>	<b>(5,160)</b>	<b>(6,136)</b>	<b>(18,576)</b>	<b>(6,006)</b>	<b>(5,808)</b>	<b>(4,678)</b>	<b>(6,303)</b>	<b>(22,970)</b>
Interest and other income	24	27	20	20	91	23	26	25	(125)	(51)
<b>(Loss) income before inc.taxes</b>	<b>(7,162)</b>	<b>(67)</b>	<b>(5,140)</b>	<b>(6,116)</b>	<b>(18,485)</b>	<b>(5,983)</b>	<b>(5,782)</b>	<b>(4,653)</b>	<b>(6,428)</b>	<b>(23,021)</b>
income tax benefit (exp)	-									
<b>Adj. Ni/(loss) as reported</b>	<b>(7,162)</b>	<b>(67)</b>	<b>(5,140)</b>	<b>(6,116)</b>	<b>(18,485)</b>	<b>(5,983)</b>	<b>(5,782)</b>	<b>(4,653)</b>	<b>(6,428)</b>	<b>(23,021)</b>
1X and non-cash					-			(2,325)		
<b>NI/(loss) as reported</b>	<b>(7,162)</b>	<b>(67)</b>	<b>(5,140)</b>	<b>(6,116)</b>	<b>(18,485)</b>	<b>(5,983)</b>	<b>(5,782)</b>	<b>(6,978)</b>	<b>(6,428)</b>	<b>(23,021)</b>
<b>Earning per Share (EPS)</b>	<b>(\$0.21)</b>	<b>(\$0.00)</b>	<b>(\$0.15)</b>	<b>(\$0.16)</b>	<b>(\$0.52)</b>	<b>(\$0.15)</b>	<b>(\$0.13)</b>	<b>(\$0.15)</b>		
<b>Adj EPS ex-1x &amp; non-cash</b>	<b>(\$0.21)</b>	<b>(\$0.00)</b>	<b>(\$0.15)</b>	<b>(\$0.16)</b>	<b>(\$0.52)</b>	<b>(\$0.15)</b>	<b>(\$0.13)</b>	<b>(\$0.10)</b>	<b>(\$0.14)</b>	<b>(\$0.52)</b>
Weighted avg. shares (000)	34,175	34,177	34,366	38,673	35,344	39,430	44,530	45,644	45,894	43,875
Fully diluted shares (000)	40,579	42,408	42,487	50,627	44,022	48,430	53,530	54,644	54,894	52,875

Source: Company Reports; Laidlaw &amp; Company estimates

Figure 4: Annual Income Statement

EyePoint Pharmaceuticals						
Annual income statement						
(\$000's except per share)	2016A	2017A	2018E	2019E	2020E	Comments
<b>Revenues</b>						
Collaborative R&D	\$398	\$6,569	\$1,425	\$1,200	\$1,200	Durasert 3-year launch 3Q19
Royalty income	\$1,222	\$970	\$1,518	\$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	
<b>Total Revenues</b>	<b>\$1,620</b>	<b>\$7,539</b>	<b>\$2,943</b>	<b>\$14,514</b>	<b>\$49,537</b>	
COGS				2,721	5,944	
<b>Gross margin</b>	<b>1,620</b>	<b>7,539</b>	<b>2,943</b>	<b>11,793</b>	<b>43,593</b>	
R&D	14,381	14,880	15,913	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
<b>Operating income/(loss)</b>	<b>(21,774)</b>	<b>(18,576)</b>	<b>(22,970)</b>	<b>(23,007)</b>	<b>(1,407)</b>	
Interest expense	72	91	(51)	(500)	(500)	
<b>Total other loss</b>						
<b>Adj-Net income/(loss)</b>	<b>(21,547)</b>	<b>(18,485)</b>	<b>(23,021)</b>	<b>(23,507)</b>	<b>(1,907)</b>	
Series A convert premium						
<b>NI/(loss) as reported</b>	<b>(21,547)</b>	<b>(18,485)</b>	<b>(23,021)</b>	<b>(23,507)</b>	<b>(1,907)</b>	
<b>Adj-EPS ex-non-cash</b>	<b>(\$0.68)</b>	<b>(\$0.52)</b>	<b>(\$0.52)</b>	<b>(\$0.45)</b>	<b>(\$0.03)</b>	
<b>EPS as reported</b>						
Shares out (000)	31,623	35,344	43,875	52,794	57,407	
Fully diluted shares (000)	37,228	44,022	52,875	62,794	68,407	

Source: Company Reports; Laidlaw &amp; Company estimates

## Major Risks

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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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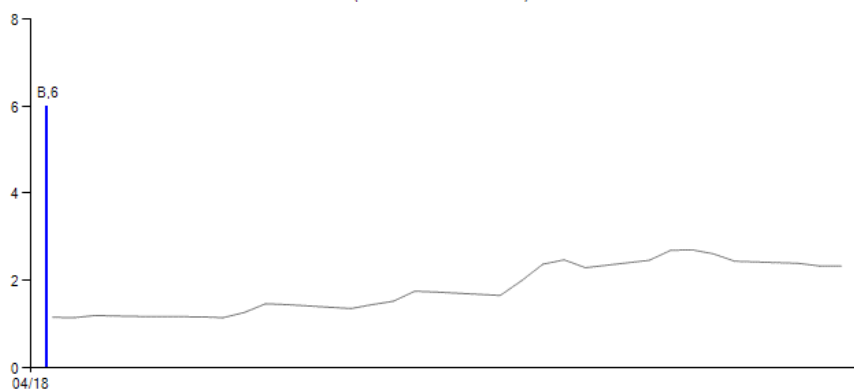
*Additional information available upon request.*

# Laidlaw & Co (UK) Ltd. has not provided any investment banking services for the company (ies) mentioned in this report over the last 12 months.

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**Rating and Price Target Change History**

EYPT: Stock Price Vs. Rating & Target Price Changes (\$) (04-02-2018 thru 05-09-2018)



*3 Year Rating Change History*

Date	Rating	Closing Price (\$)
04/02/...	Buy (B)	1.15

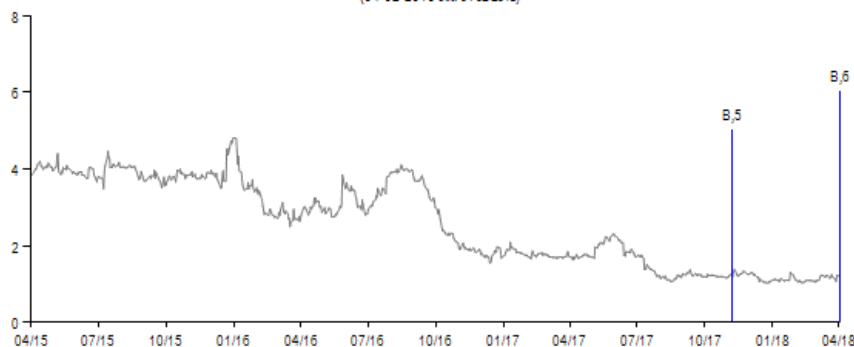
*3 Year Price Change History*

Date	Target Price (\$)	Closing Price. (\$)
04/02/...	6.00	1.15

Source: Laidlaw & Company

Created by: Blue-Compass.net

PSDV: Stock Price Vs. Rating & Target Price Changes (\$) (04-02-2015 thru 04-02-2018)



Source: Laidlaw & Company

Created by: Blue-Compass.net

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

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.	66.04%	26.42%	3.77%
<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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