

EyePoint Pharmaceuticals (EYPT - \$2.18)

Healthcare / Biotechnology

Transition from R&D to Commercial Around the Corner at EYPT

We recently spent time with EYPT's senior management and come away incrementally more positive as we believe their extensive commercial expertise could add significant value. The company could be launching two ophthalmic products as soon as 1H19. As a reminder, on 3/28/18, EYPT announced their transformative acquisition of Icon Biosciences and Dexycu (dexamethasone intraocular suspension 9%), which was FDA approved on 2/9/18 as the first product for postoperative inflammation. As current treatments following cataract surgeries (~4M performed annually) consist of intensive drop regimens (>105 drops over 4 weeks), we believe Dexycu could fulfill a significant unmet medical need. Understanding how to navigate the pass-through C-code that EYPT will be filing for Dexycu represents a key component of their launch. For that reason, we are particularly encouraged by their recent hiring of Leonard Blum (EVP and GM in the US). Mr. Blum brings >30 years of experience with successful launches of multiple products across multiple therapeutic categories (most recently with turning around Omeros' (OMER) Omidria). As pass-through C-codes are issued quarterly by CMS, we expect EYPT to file in 2H18. Pass-through reimbursement lasts 3 years. However, we expect their reimbursement status to last at least another 2 years as other drugs have received extensions; and due to the significant developments in the field. Additionally, we see as prudent EYPT's intent to initially specifically target the Medicare part B patients (~40% of patients). Finally, we continue to see Yutiq's 3/19/18 PDUFA as relatively de-risked as the technology is already on the market. We continue to anticipate M&A activity and reiterate our Buy rating and \$6 price target.

Ticker: EYPT
Rating: **Buy**
Price Target: **\$6.00**

Trading Data:

Last Price (05/30/2018)	\$2.18
52-Week High (05/02/2018)	\$2.88
52-Week Low (02/09/2018)	\$0.93
Market Cap. (MM)	\$117.8
Shares Out. (MM)	54.0

- **Commercial expertise grows as Dexycu launch approaches.** We are particularly impressed with EYPT's hire of Leonard Blum for EYPT's sales, marketing, payor access, trade efforts and business development. We see his expertise with reimbursement in the cataract space as a significant positive. We continue to expect launch in 1H19.
- **Key catalysts still ahead in 2H18.** We continue to expect filing and potential approval for pass-through reimbursement for Dexycu in 2H18. We also look forward to Yutiq's 11/5/18 PDUFA, which we still view as relatively de-risked as their Durasert three-year technology has already been commercialized for many years.
- **Reiterating our Buy rating and \$6 price target.** Our price target is based on Durasert three-year US and royalties at \$3/share, Dexycu US at \$2.5/share and \$0.50/share for cash and tech.

Earnings Estimates: (per share)

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

Analyst

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Source: Laidlaw & Company estimates

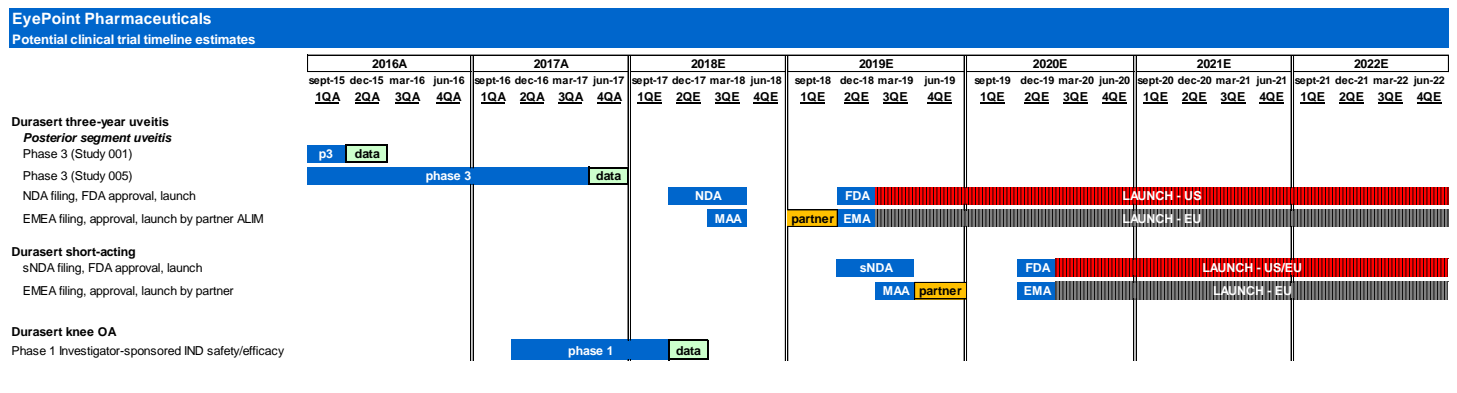
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Figure 1: Sum-of-the-Parts Analysis

Sum-of-the-parts valuation		
Segment	Valuation (000's)	Per share value
Durasert tree-year US	\$108,772	\$2.00
Durasert three-year royalties	\$48,642	\$1.00
Dexycu US sales	\$123,274	\$2.50
Cash (end '18) & tech value	\$25,456	\$0.50
	\$306,143	\$6.00
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)										
Revenues										
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										
Total Revenues	\$277	\$5,971	\$590	\$701	\$7,539	\$385	\$933	\$928	\$697	\$2,943
Expenses:										
COGS (% of US Revenue)		-	-	-	-					
Gross Margin	277	5,971	590	701	7,539	385	933	928	697	2,943
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
Total operating expenses	7,463	6,065	5,750	6,837	26,115	6,391	6,741	5,606	7,000	25,913
Operating Income/ (loss)	(7,186)	(94)	(5,160)	(6,136)	(18,576)	(6,006)	(5,808)	(4,678)	(6,303)	(22,970)
Interest and other income	24	27	20	20	91	23	26	25	(125)	(51)
(Loss) income before inc.taxes	(7,162)	(67)	(5,140)	(6,116)	(18,485)	(5,983)	(5,782)	(4,653)	(6,428)	(23,021)
income tax benefit (exp)	-									
Adj. Ni/(loss) as reported	(7,162)	(67)	(5,140)	(6,116)	(18,485)	(5,983)	(5,782)	(4,653)	(6,428)	(23,021)
1X and non-cash					-			(2,325)		
NI/(loss) as reported	(7,162)	(67)	(5,140)	(6,116)	(18,485)	(5,983)	(5,782)	(6,978)	(6,428)	(23,021)
Earning per Share (EPS)	(\$0.21)	(\$0.00)	(\$0.15)	(\$0.16)	(\$0.52)	(\$0.15)	(\$0.13)	(\$0.15)		
Adj EPS ex-1x & non-cash	(\$0.21)	(\$0.00)	(\$0.15)	(\$0.16)	(\$0.52)	(\$0.15)	(\$0.13)	(\$0.10)	(\$0.14)	(\$0.52)
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 & Company estimates

Figure 4: 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	\$1,425	\$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	
Total Revenues	\$1,620	\$7,539	\$2,943	\$14,514	\$49,537	
COGS				2,721	5,944	
Gross margin	1,620	7,539	2,943	11,793	43,593	
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
Operating income/(loss)	(21,774)	(18,576)	(22,970)	(23,007)	(1,407)	
Interest expense	72	91	(51)	(500)	(500)	
Total other loss						
Adj-Net income/(loss)	(21,547)	(18,485)	(23,021)	(23,507)	(1,907)	
Series A convert premium						
NI/(loss) as reported	(21,547)	(18,485)	(23,021)	(23,507)	(1,907)	
Adj-EPS ex-non-cash	(\$0.68)	(\$0.52)	(\$0.52)	(\$0.45)	(\$0.03)	
EPS as reported						
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 & 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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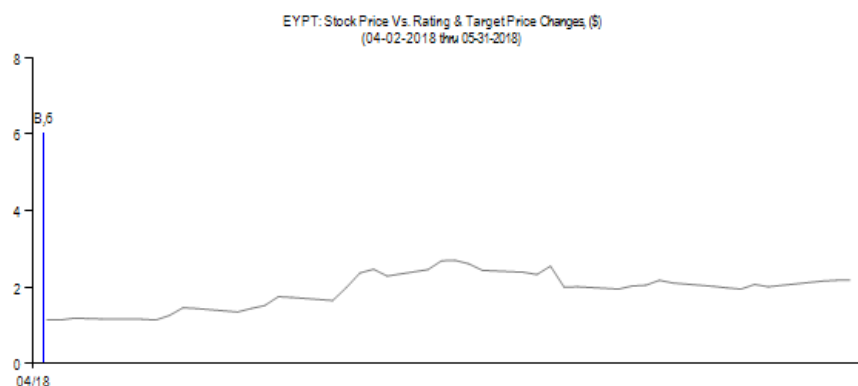
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Additional information available upon request.

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Rating and Price Target Change History



3 Year Rating Change History

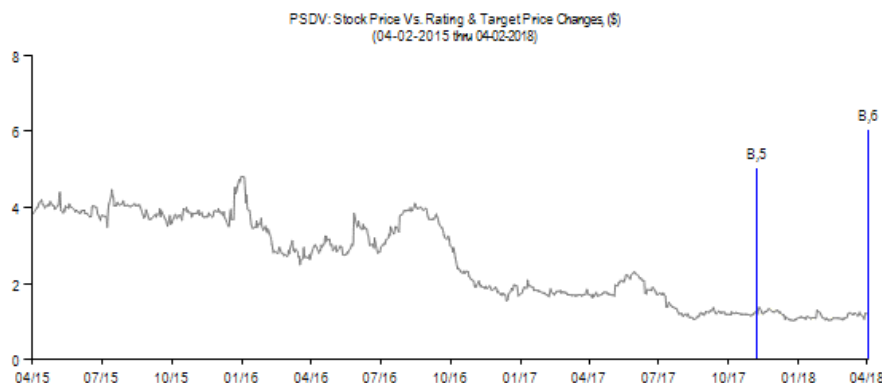
Date	Rating	Closing Price (\$)
04/02/2018	Buy (B)	1.15

3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
04/02/2018	6.00	1.15

Source: Laidlaw & Company

Created by: Blue-Compass.net



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
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.	66.67%	25.93%	3.70%

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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Omeros (OMER – Not Rated)

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