Zacks Small-Cap Research

December 20, 2017
John D. Vandermosten, CFA
312-265-9588 / jvandermosten@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Suite 1600, Chicago, IL 60606

Resverlogix Corp. (RVX - TSX)

Debt Overhang Eliminated; Target Price Down on Share Dilution

Based on our DCF model and a 15% discount rate, RVX is valued at approximately CAD$5.00 per share. Our model applies a 64% probability of apabetalone sales for indications in the BETonMACE trial. Our valuation only includes BETonMACE indication contributions from the US, Europe, & Latin America, as well as royalties from the Hepalink arrangement. It does not recognize potential from renal or orphan indications.

Current Price (12/19/2017)	$1.96
Valuation	**$5.00**

OUTLOOK

Resverlogix Corp. (RVX.TO) began recruiting and dosing participants in the Phase 3 BETonMACE trial of its lead candidate apabetalone (RVX-208) in high-risk CVD patients with diabetes in November 2015. We believe the trial will take approximately 3 years to complete, targeting topline readout in 2018. With a potential impact on multiple markers for CVD we are optimistic on a materially significant impact on MACE.

The company has announced several successful early phase studies in DM and renal that are supportive of apabetalone's safety profile and point to expanded indications.

At the current price, we view Resverlogix shares as undervalued, and in a position to provide long-term upside potential. We see additional upside from the realization of expansion into new geographies, the orphan disease program, and renal disease.

SUMMARY DATA

52-Week High	**2.47**
52-Week Low	**1.23**
One-Year Return (%)	**15.3**
Beta	**1.55**
Average Daily Volume (sh)	**64,195**
Shares Outstanding (mil)	**175**
Market Capitalization ($mil)	**343**
Short Interest Ratio (days)	**5.51**
Institutional Ownership (%)	**0.0**
Insider Ownership (%)	**69.5**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2017 Estimate	**N/A**
P/E using 2018 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue

(In millions of US$)

	Q1 (Jul)	Q2 (Oct)	Q3 (Jan)	Q4 (Apr)	Year (Apr)
2017	$0.0 A	$0.0 A	$0.0 A	$0.0 A	$0.0 A
2018	$0.0 A	$0.0 A	$0.0 E	$0.0 E	$0.0 E
2019					$0.0 E
2020					$0.0 E

Earnings per Share

	Q1 (Jul)	Q2 (Oct)	Q3 (Jan)	Q4 (Apr)	Year (Apr)
2017	-$0.06 A	-$0.14 A	-$0.12 A	-$0.11 A	-$0.44 A
2018	-$0.14 A	-$0.10 A	-$0.07 E	-$0.06 E	-$0.35 E
2019					-$0.27 E
2020					-$0.27 E

WHAT'S NEW

Resverlogix Reports Second Quarter 2018 Results

On December 14, Resverlogix Corp. (TSX: RVX) posted its financial statements and management discussion and analysis for its second quarter of FY:18, ending October 31, 2017. The company reported no revenues and a net loss of ($10.9)[1] million or ($0.10) per share. This compares to our estimates of zero revenues and a net loss of ($11.3) million and ($0.10) per share. Total operational expenses for 2Q:18 were $9.6 million, increasing from $7.6 million in the prior year. Second quarter research & development expenses rose 33% while general & administrative expenses fell 9%.

Second quarter R&D was $8.4 million, up from $6.4 million in the same period a year prior. Increases in expenditure arose from higher clinical costs related to the expansion of the BETonMACE clinical trial, higher chemistry, manufacturing and controls and preclinical costs partially offset by lower costs from sample analysis, consultants and insurance. BETonMACE costs related to country selection, investigative site evaluation, central lab start-up, set-up of electronic systems, training, site initiation visits, and patient recruitment.

General and administrative costs fell to $1.1 million in 2Q:18, down from $1.3 million in 2Q:17. Lower share based compensation was the reason for the decline, as no stock options or restricted stock units were granted. Fair value of the warrant liability decreased by ($1.5) million due predominantly to share price declines. Five million new warrants were issued over this time period related to private placements and new share offerings net of warrant expirations.

As of October 31, 2017, Resverlogix held $0.7 million in cash and $53.3 million in debt. Operating cash burn was ($1.4) million per month in 2Q:18. Resverlogix also calculates cash burn; relative to our formula it includes changes in non-cash working capital and excludes capital expenditures yielding a ($3.1) million monthly burn rate for the second quarter. Using our definition of cash from operations less capital expenditures, this compares to monthly cash burn of ($2.9) million in 2Q:17.

Resverlogix's cash has been at minimal levels during 2017. The company has sought to obtain non-dilutive financing and pay down outstanding debt due this year. Several private placements and share issuances have occurred year to date which have provided approximately USD$80 million, including the December 4, 2017 transaction with Shenzhen Hepalink Pharmaceutical. This has allowed the repayment of the USD$54 million loan to Citibank/Eastern Capital and provided funds for operations. We estimate that financing fees and catching up on payables has kept cash at levels close to where it was at the end of Q2:18 following the December transaction. Our forecasts suggest that the company will need to raise additional capital in the short term and we expect additional activity in the next month. We note that the company has an active letter of intent from an unidentified entity seeking a regional licensing agreement or equity investment which may allow the company to regain its footing.

Resverlogix has consistently met its trial milestones and continues to be on track for a BETonMACE readout by late 2018. In the interim, the team has conducted small trials to provide additional evidence of safety and expanded efficacy in renal and Fabry disease. We believe that the consistently positive data and newsflow from internal and external apabetalone research generates support for financing which is expected to take place in the near term.

BETonMACE Update

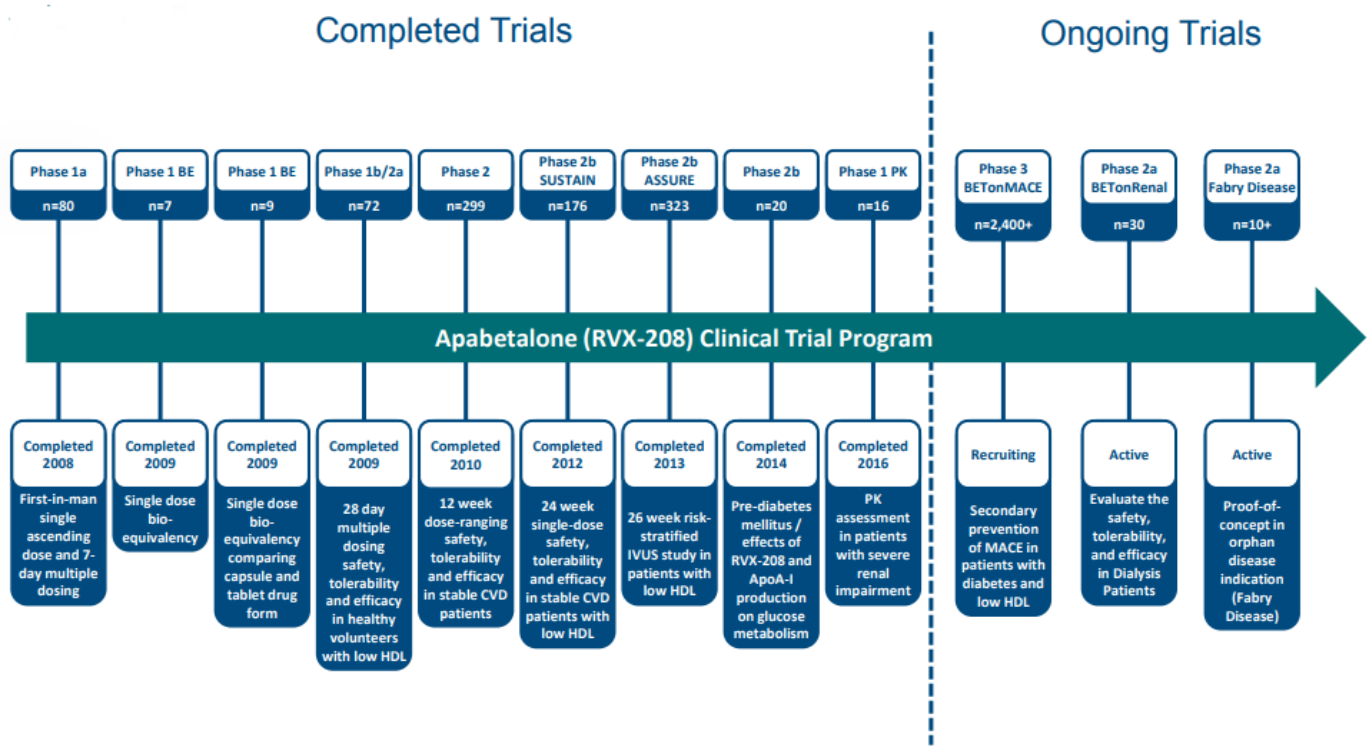
On July 25, 2017 Resverlogix received a positive Type C written response from the FDA allowing the launch of the BETonMACE study in the United States. The FDA had previously requested updated information on apabetalone with respect to human exposure, clinical dosing and established acceptable safety margins to which Resverlogix satisfactorily responded.

As of early December, over 2,100 of the 2,400 patients that are anticipated to be included in the BETonMACE trial have been enrolled. Five Data and Safety Monitoring Board (DSMB) meetings have taken place, all recommending that the trial continue as designed. No safety or efficacy concerns were raised in any of the reviews. Some patients have been taking apabetalone for over 100, weeks, which is four times longer than the duration of the longest

[1] Note that financial statements are prepared in US Dollars and our commentary on revenues expenses and earnings is also in US Dollars, while our target price is in Canadian Dollars.

Phase 2 trial conducted with the drug. This is a favorable observation supportive of the safety of apabetalone. Full enrollment is expected by the first half of calendar year 2018.

Exhibit I – Apabetalone Clinical Trials



Resverlogix Raises USD$73 Million Gross

From the beginning of the second quarter to date, Resverlogix has raised USD$73 million in private placements which has been used to pay down USD$54 million in debt and provide operating capital. The funding has lifted a substantial burden from Resverlogix, removing the debt and interest overhang from the company. Despite this deleveraging, Resverlogix will continue to need additional funds to complete its BETonMACE trial and current estimated cash should be sufficient to advance to the next quarter.

In August of this year, the company announced that it had received a letter of intent regarding a regional licensing agreement or equity investment in Resverlogix. Discussions continue along these lines and could potentially provide non-dilutive financing for apabetalone's development program.

On October 24, 2017, Hepalink agreed to pay CAD$8 million for the first right of refusal for commercialization of apabetalone in the United States. The amount was recognized as unearned revenue. If a license agreement is consummated, the CAD$8 million will be credited against any payment obligations of Hepalink.

Recent Publications

In December, the company highlighted an academic publication on apabetalone that provided evidence that the compound can reactivate HIV-1 from latency. The reactivation can alert the body's immune system to the virus, thereby allowing it to eliminate the virus from the body. HIV-1 is able to persist in the body as it inhabits viral reservoirs and remains hidden; however, the use of apabetalone may activate the production of viral proteins which are recognized as antigens and subsequently attacked by immune cells.

Prior to the end of 2Q:18, Resverlogix highlighted the CANTOS trial, which was conducted by Novartis and found an relationship between inflammation and heart disease. These results are supportive of Resverlogix's work, where apabetalone has been shown to reduce known markers of inflammation. This relationship may explain the MACE reduction results shown in the ASSERT, SUSTAIN and ASSURE trials.

Stephen Nicholls, et al. published an article in October entitled “Selective BET Protein Inhibition with Apabetalone and Cardiovascular Events: A Pooled Analysis of Trials in Patients with Coronary Artery Disease” which concluded that patients treated with apabetalone had fewer cardiovascular events compared to those treated with placebo. The paper used data generated from the ASSERT, SUSTAIN and ASSURE trials. The research highlighted apabetalone’s ability to target lipid and inflammation pathways and noted that the benefit from the drug was more pronounced in patients with diabetes and elevated inflammatory markers.

Financial Position

Following the financial transactions of the second and third quarter to date, we estimate that Resverlogix holds cash on its balance sheet similar to the levels at the end of 2Q:18. Resverlogix reduced its cash burn rate in the second quarter, holding back on payables in anticipation of closing the additional financing with Hepalink. Much of the upfront costs for enrolling new patients, such as initial screenings, and the costs of statins used in the trial have already peaked, helping limit cash use.

Our Estimates

For the first half of FY:18, expenses have largely been in line with our estimates with the predominant focus on obtaining additional financing. Trial work has progressed well, and the company noted that 2,100 of the anticipated 2,400 patients have been enrolled in the BETonMACE trial. Resverlogix initiated a 16-week Phase 2b trial for Fabry disease and conducted a Phase 1 chronic kidney disease trial in 2017. It is planning a Phase 2a kidney dialysis trial in 2018 which will be termed BETonRENAL. These efforts have led to an increase in R&D expense which we anticipate will continue in the coming quarters. The BETonMACE trial also received the go-ahead for opening clinical sites in the United States and adding US patients to the trial, which will increase the level of R&D expenditure. General and administrative expenses have been under control and have not increased materially over the last year. However, they are exposed to general inflationary pressures and a slight increase is anticipated in FY:18. A further increase is expected in FY:19 as well, following the completion of the trial and anticipated submission of a new drug application to regulatory authorities. Operating loss continues to be forecast at ~($49) million in FY:18 but losses are tempered on a per share basis due to the issuance of additional shares related to the Hepalink transaction.

Summary

Our investment thesis on Resverlogix emphasizes the opportunity related to the size of the population impacted by cardiovascular disease (CVD) and the high degree of efficacy and evidence of safety shown so far in clinical investigations. Costs related to the number one killer in the world are almost $1 trillion and the incidence of CVD is expected to increase as the population ages. Obesity, diabetes, high cholesterol and other risk factors are becoming more common, dramatically increasing the need for therapies that are more effective. Resverlogix’s lead compound has shown promise in addressing many of the key biomarkers underlying CVD and potentially has applications in other therapeutic areas beyond this disease.

We updated our model for 2Q:18 results and the issuance of additional shares in recent private placements. Both R&D and G&A expenses are expected to rise in coming quarters, reflecting increased investigational site costs and inflation. We also anticipate additional capital raises that will continue to fund operations until Resverlogix can submit its Phase III data to the FDA and other regulatory authorities.

We reduce our valuation target due to the conversion of debt into equity. An additional five million warrants and 63.8 million shares were added to the capital structure, the proceeds of which were used to eliminate the debt overhang. Since all shares will share in the anticipated gains, assuming commercialization of apabetalone, the spoils are spread more broadly thereby reducing the upside for each individual share. This is in contrast to debt, which is repaid at face value and does not participate in the gains. Although our cash flow estimates and their timing do not change, our target price falls from $6.50 to $5.00 per share due to the debt to equity conversion.

We believe that a durable patent position and the forecasted pricing of apabetalone, combined with a management skill set surrounding CVD and diabetes as well as a novel approach to addressing the residual risk in high need CVD patients support our price target. At current share price levels, there is substantial upside based on our target price. We highlight that data from the BETonMACE trial will not likely be available until mid to late-2018, but we look forward to see results from the interim futility analysis which will provide a first look after 125 MACE events. We update our price target to CAD$5.00 per share.

PROJECTED FINANCIALS

Resverlogix Corp. - Income Statement

Resverlogix Corp (millions of $US)	Apr. 2017 FY-17 A	Jul. 2017 Q1 A	Oct. 2017 Q2 A	Jan. 2018 Q3 E	Apr. 2018 Q4 E	Apr. 2018 FY-18 E	Apr. 2019 FY-19 E	Apr. 2020 FY-20 E
RVX-208	$0	$0	$0	$0	$0	$0	$0	$0
Licensing & Collaborative	$0	$0	$0	$0	$0	$0	$0	$0
YOY Growth	-	-	-	-	-	-	-	-
Total Revenues	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
CoGS	$0	$0	$0	$0	$0	$0	$0	$0
Product Gross Margin	-	-	-	-	-	-	-	-
R&D Expense (net)	$29.9	$8.0	$8.4	$7.9	$7.8	$32.2	$33.0	$34.0
G&A Expense	$4.3	$0.9	$1.1	$1.2	$1.2	$4.4	$6.8	$7.0
Operating Income	($34.1)	($8.9)	($9.6)	($9.1)	($9.0)	($36.6)	($39.8)	($41.0)
Operating Margin	-	-	-	-	-	-	-	-
Net Finance Activities	($12.0)	($6.4)	($1.3)	($2.2)	($2.2)	($12.1)	($8.8)	($8.8)
Other Gain / (Loss)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	($46.1)	($15.3)	($10.9)	($11.3)	($11.2)	($48.7)	($48.6)	($49.8)
Taxes & Other	$0.1	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	($46.2)	($15.4)	($10.9)	($11.3)	($11.2)	($48.7)	($48.6)	($49.8)
Reported EPS	**($0.44)**	**($0.14)**	**($0.10)**	**($0.07)**	**($0.06)**	**($0.35)**	**($0.27)**	**($0.27)**
YOY Growth	-					-	-	-
Diluted Shares Outstanding	105.4	108.2	113.2	154.5	175.1	137.7	180.0	185.0

Source: Company Filing // Zacks Investment Research, Inc. Estimates

HISTORICAL STOCK PRICE

Resverlogix, Corp. – One Year Price Chart[2]

[2] Chart generated by Google Finance

DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, John Vandermosten, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

CANADIAN DISCLAIMER

This research report is a product of Zacks SCR and prepared by a research analyst who is employed by or is a consultant to Zacks SCR. The research analyst preparing the research report is resident outside of Canada and is not an associated person of any Canadian registered adviser and/or dealer and, therefore, the analyst is not subject to supervision by a Canadian registered adviser and/or dealer, and is not required to satisfy the regulatory licensing requirements of any Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and is not required to otherwise comply with Canadian rules or regulations.