Zacks Small-Cap Research

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Resverlogix Corp. (RVX - TSX)

BETonMACE Fully Enrolled

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 (4/11/2018)	$1.81
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 diabetes mellitus and chronic kidney disease 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 (%)	**-18.8**
Beta	**2.1**
Average Daily Volume (sh)	**32,043**
Shares Outstanding (mil)	**175**
Market Capitalization ($mil)	**317**
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 A	$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	-$0.15 A	-$0.06 E	-$0.44 E
2019					-$0.27 E
2020					-$0.27 E

WHAT'S NEW

Resverlogix Closes Financing

On April 11, 2018, Resverlogix Corp. (TSX: RVX) announced the closing of $3.2 million in equity financing and accepted a commitment letter for a US$30 million loan. The equity financing was a private placement for 1.8 million shares at a price of $1.78 per share. The senior secured loan will be with Third Eye Capital, a Toronto-based lender, and will provide $30 million with a term of 12 months. The loan is expected to close by month's end. We expect this financing to get the company past the sample size re-estimation analysis and to the BETonMACE trial readout near the end of the calendar year. Resverlogx is continuing to explore co-development opportunities, regional licensing deals, and the licensing of secondary indications to continue to support the development process until commercialization.

Third Quarter of Fiscal Year 2018

Following the second quarter, November 2017 began on a positive note for Resverlogix with the fifth recommendation from the DSMB for the BETonMACE trial endorsing its continuation. In December, the company closed a private placement with Shenzhen Hepalink which allowed the company to pay down the debt on the balance sheet and obtain funds to continue operations. A licensing agreement emerged in January with Medison Pharma granting rights to commercialize apabetalone in Israel and the Palestine Authority. Also in January, Resverlogix announced the acceptance of the company's protocol by the FDA for the BETonMACE trial, allowing the expansion of the trial in North America. Shortly after filing its third quarter financials and the announcement of the sixth positive recommendation from the DSMB, Resverlogix announced that it had exceeded its enrollment target of 2,400 patients and expects to see the primary endpoint read-out by year end 2018. Despite the consistent forward motion in BETonMACE, the company continues to require capital. Some of the pressure was alleviated with the early April equity and debt financing that we expect will get the company to the BETonMACE readout.

On March 16, Resverlogix posted its financial statements and management discussion and analysis for its third quarter of FY:18, ending January 31, 2017. The company reported no revenues and a net loss of ($23.9)[1] million or ($0.15) per share. This compares to our estimates of zero revenues and a net loss of ($9.1) million and ($0.07) per share. Total operational expenses for 3Q:18 were $12.9 million, increasing from $9.7 million in the prior year. Third quarter research & development expenses rose 38% while general & administrative expenses fell 3%.

Third quarter R&D was $11.9 million, up from $8.7 million in the same period a year prior. Increases in clinical costs related to the expansion of the BETonMACE clinical trial into the United States, higher regulatory costs, other clinical costs including sample analysis, consultants and insurance contributed to the change. 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 were also part of the mix.

General and administrative costs fell slightly below $1.0 million, which was only a small contraction from the prior year due to lower share based payments. Net finance costs were $11.0 million in the quarter, mostly due to changes in the value of the warrant liability and the royalty preferred shares which contributed $8.6 million to the total.

As of January 31, 2018, Resverlogix held $0.5 million in cash and zero debt. Operating cash burn was ($3.1) million per month in 3Q:18 rising due to higher R&D. Resverlogix also calculates cash burn; relative to our formula it includes changes in non-cash working capital and excludes capital expenditures yielding a ($4.7) million monthly burn rate for the quarter. Using our definition of cash from operations less capital expenditures, this compares to monthly cash burn of ($2.2) million in 3Q:17.

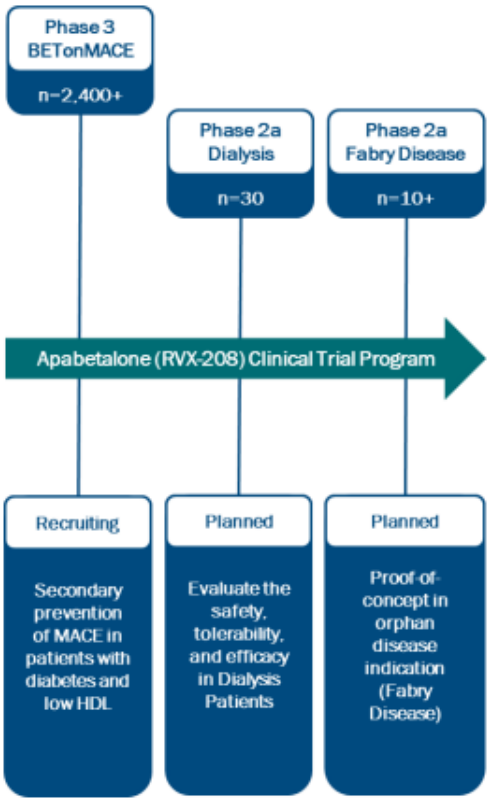
[1] Note that financial statements are prepared in US Dollars and our commentary on revenues expenses and earnings is also in US Dollars, while our target price is in Canadian Dollars.

Resverlogix's cash has been at minimal levels during 2017. The company has been successful obtaining additional financing by raising equity in December and using the proceeds to pay down outstanding debt and provide additional cash for operations. These include the USD$80 million amount, including the December transaction with Shenzhen Hepalink Pharmaceutical and a USD$7.5 equity subscription in June. This provided cash to repay the USD$54 million loan to Citibank/Eastern Capital and funds for operations. A further private placement in equity and debt funding was announced in April 2018, which is expected to carry the company through to the end of the BETonMACE trial.

BETonMACE Update

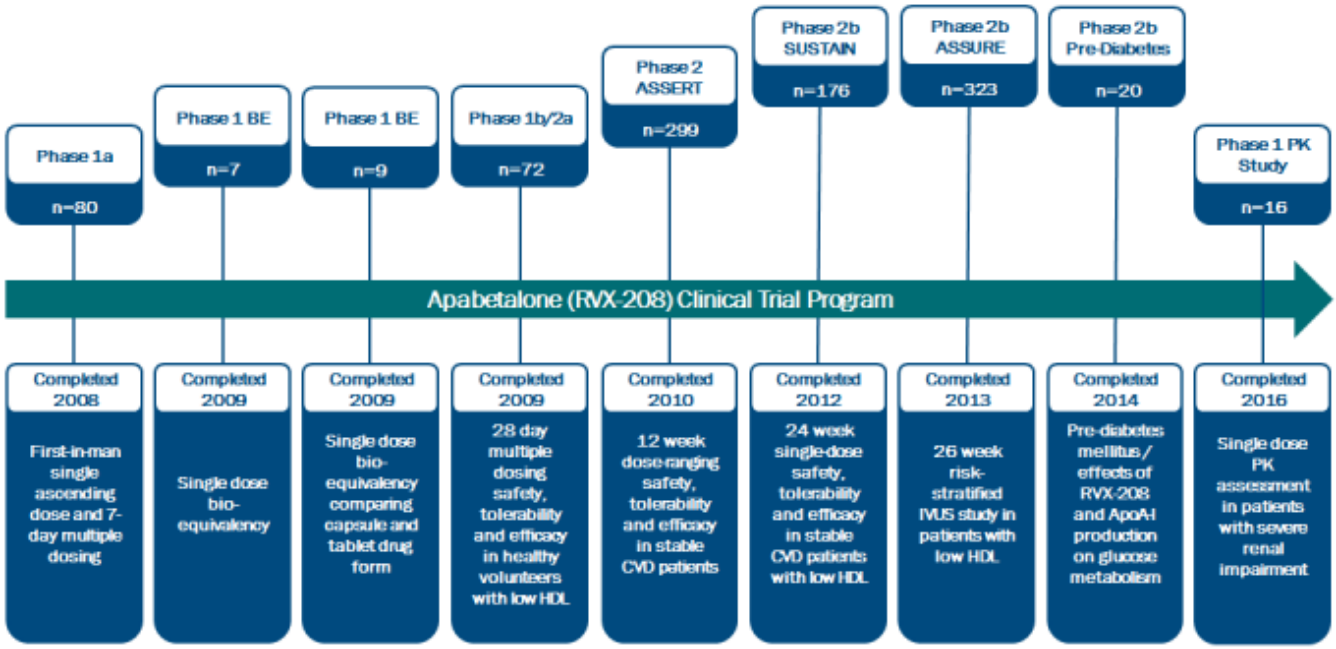
On July 25, 2017 Resverlogix received a positive Type C written response from the FDA allowing the launch of the BETonMACE study in the United States. The FDA had previously requested updated information on apabetalone with respect to human exposure, clinical dosing and established acceptable safety margins to which Resverlogix satisfactorily responded. In January 2018, the FDA accepted the study protocol amendments, allowing the expansion of the trial into the United States. As of early April, over 2,400 patients have been enrolled in the BETonMACE trial. Six 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 the reviews. The BETonRENAL Dialysis trial and the Fabry Disease trial are both filed and planned, but have yet to enroll their first patient. We anticipate when sufficient funding is received to complete the BETonMACE trial, initial enrollees will be added.

Exhibit I – Current or Planned Apabetalone Trials



Over its history, Resverlogix has completed trials providing treatment with apabetalone in over 1,000 patients, providing a substantial set of safety and efficacy data supportive of the current efforts in the BETonMACE trial.

Exhibit II – Completed Apabetalone Trials



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 elimination from the body. HIV-1 is able to persist 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.

Another December paper entitled "Benefit of Apabetalone on Plasma Proteins in Renal Disease" was published in Kidney International Reports. It illustrated the downregulation of numerous disease markers and showed impact on renal disease and cardiovascular complications.

In March 2018, Resverlogix announced two new articles on apabetalone. The first, entitled 'Apabetalone Mediated Epigenetic Modulation is Associated with Favorable Kidney Function and Alkaline Phosphatase Profile in Patients with Chronic Kidney Disease' was published in Kidney & Blood Press Research. The article discussed the association between serum alkaline phosphatase and adverse cardiovascular outcomes and how it may be related to calcification and inflammation. A second article, 'Benefit of Apabetalone on Plasma Proteins in Renal Disease' was included in an issue of Kidney International Reports. The findings in the article demonstrate plasma proteome dysregulation in patients with impaired kidney function and the beneficial impact of apabetalone on proteins and pathways linked to chronic kidney disease and its cardiovascular complications.

Financial Position

Resverlogix maintained low cash levels at the end of its third quarter; however, it announced an equity and debt raise late in its fourth quarter which should provide sufficient capital to reach the calendar year end. The additional capital is also expected to address the listing requirements promulgated by the TSX. The company increased its burn rate in the third quarter as the US trials were launched, but BETonMACE is fully enrolled, and R&D expenses are expected to decline as the trial winds down. We anticipate that fourth quarter cash burn will fall sequentially and we adjust our estimates to reflect this.

Our Estimates

For the first three quarters of FY:18, expenses have largely been in line with our estimates; however, R&D did increase in the third quarter due to the launch of the US portion of the apabetalone trial. Trial work has progressed well, and the company has exceeded its 2,400 patient enrollment target. Upcoming events of importance include achieving the 75% mark for the 250 events in the trial. This will occur when 188 MACE events[2] have occurred and will be followed by a sample size re-estimation analysis to ensure the trial will generate statistically significant results. Management is also anticipating a year-end 2018 readout on the trial, at which time the safety and efficacy of apabetalone will be presented. General and administrative expenses have been under control and have not increased materially over the last year. FY:18 operating loss is estimated to be ($40) million. After adjusting for net financing activities, this represents a net loss of ($61) million or ($0.44) per share.

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. 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 third quarter results and the issuance of additional shares in recent private placements. G&A expenses are expected to rise in coming quarters, reflecting increased activity around the completion of the BETonMACE trial. R&D expenses are forecast to fall, reflecting the end of the enrollment phase of the study. We 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 believe that a durable patent position, a competence in CVD and diabetes and a novel approach to addressing the residual risk in high need CVD patients combined with our forecasted pricing of apabetalone support Zacks' price target. At current levels, there is substantial upside based on our targets. We highlight that data from the BETonMACE trial will not likely be available until fall 2018, but we eagerly anticipate results from the sample size re-estimation analysis which will provide a first look after 75% of the primary MACE events have been adjudicated. We maintain our price target at CAD$5.00 per share.

[2] As a reminder a MACE (major adverse cardiac event) is the occurrence of any of the following: CV death, non-fatal MI, hospitalization for CVD events, or stroke.

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 A	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	$11.9	$7.0	$35.4	$30.0	$30.0
G&A Expense	$4.3	$0.9	$1.1	$1.0	$1.2	$4.2	$6.8	$7.0
Operating Income	($34.1)	($8.9)	($9.6)	($12.9)	($8.2)	($39.6)	($36.8)	($37.0)
Operating Margin	-	-	-	-	-	-	-	-
Net Finance Activities	($12.0)	($6.4)	($1.3)	($11.0)	($2.2)	($20.9)	($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)	($23.9)	($10.4)	($60.5)	($45.6)	($45.8)
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)	($23.9)	($10.4)	($60.5)	($45.6)	($45.8)
Reported EPS	**($0.44)**	**($0.14)**	**($0.10)**	**($0.15)**	**($0.06)**	**($0.44)**	**($0.25)**	**($0.25)**
YOY Growth	-					-	-	-
Diluted Shares Outstanding	105.4	108.2	113.2	155.1	175.1	137.9	180.0	185.0

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

HISTORICAL STOCK PRICE

Resverlogix, Corp. – Five Year Price Chart[3]

[3] Chart generated by Yahoo Finance

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