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Elizabeth Senko, Senior Analyst
312-265-9432
esenko@zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

Innovus Pharma (INNV-OTC)

INNV: Finding the right formula for growth in the consumer health OTC and supplements market.

We base our $0.42/share value for INNV on a ten-year DCF with a WACC of 15%. Our WACC reflects current high financing costs as well as its relatively recent transition from start up to true operating status. On a P/S basis, INNV trades at 0.9x 2018E, while its peers trade anywhere from 1.2-29x 2018 sales, averaging 12.6x.

Current Price (10/01/18)	$0.12
Valuation	**$0.42**

OUTLOOK

Innovus Pharmaceutical commercializes and markets OTC and consumer health products. The Company's portfolio focuses on sexual health, urology, allergies, pain and brain health across a range of OTC pharmaceuticals, nutritional supplements and disposables. In the past year, the Company has introduced seven new products. Innovus has a strong pipeline and a very active direct marketing effort. In 2Q18, INNV posted revenues up 253% and its fourth sequential quarter of revenue gains.

SUMMARY DATA

52-Week High	**$0.21**
52-Week Low	**$0.08**
One-Year Return (%)	**20**
Beta	**5.5**
Average Daily Volume (shrs)	**786,601**
Shares Outstanding (mil)	**205**
Market Capitalization ($mil)	**24.2**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**16**
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 2018 Estimate	**N/A**
P/E using 2019 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**High,**
Type of Stock	**N/A**
Industry	**Med-Drugs**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	**Q2** (Jun)	**Q3** (Sep)	**Q4** (Dec)	**Year** (Dec)
2017	2.2 A	2.0 A	2.2 A	2.4 A	8.8 A
2018	4.5 A	7.3 A	7.7 E	8.1 E	27.3 E
2019	8.9 E	9.7 E	10.4 E	10.2 E	38.7 E
2020					46.0 E

Earnings per share

	Q1 (Mar)	**Q2** (Jun)	**Q3** (Sep)	**Q4** (Dec)	**Year** (Dec)
2017	-$0.02 A	-$0.01 A	-$0.01 A	-$0.01 A	-$0.04 A
2018	-$0.01 A	-$0.01 A	-$0.01 E	-$0.01 E	-$0.04 A
2019	-$0.01 A	-$0.00 A	-$0.00 E	-$0.00 E	-$0.01 E
2020					-$0.01 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

INVESTMENT SUMMARY

Company Description: Targeting high-demand consumer health needs with innovative products

Founded in 2011, Innovus Pharmaceutical is an emerging player in the OTC, consumer health and supplements industry targeting sexual health, urology, pain, allergy and brain function. INNV sells 32 products and expects to add four to five more by year-end. Innovus' products primarily target customers over the age of 50. The Company markets to customers through newspaper/print advertising, direct mail, retail and online through both its own websites and aggregators such as Amazon.

Financials: Rapid top-line growth, strong gross margins – operating leverage ahead

Historic results largely reflect startup investment and only recently sales. Our model has revenues of $56.0m by 2021, including $54.2m of product sales, a compound average annual rate of 71% from 2017 revenues target of $8.8m. There is certainly room for upside to our numbers depending on the timing of new product introductions (especially the Company's pending OTC generic PDE5 inhibitor agreement). Our operating margin for 2021 is 18.9%, while our net margin is 14% on a 20% tax rate.

Valuation: Significant upside on modest assumptions

We value Innovus Pharmaceutical primarily using DCF techniques in large part because we expect much of the value in the Company will be unlocked over the next three to five years. The Company's recent results suggest a strong recent track record of product introductions and healthy gross margins of 80%+.

A 10-year DCF with a WACC of 15% on our forecast compound average annual revenue growth of 71% from 2017-2020 fading to terminal growth of 2% and a terminal EBIT margin of 15% yields a value of $0.42 per share.

For reference, a peer group of nutraceutical companies trades on an average year one consensus P/E of 26.3x and one-year consensus price-to-sales of 12.6x. Innovus currently trades at 0.9x our 2018 revenue estimate.

Sensitivities and risks: Execution is key

It is still early to know how successful INNV's multi-pronged marketing program, with its emphasis on growing subscription-based revenues to leverage marketing expenditures, will be. Early trends are quite favorable. In our view, INNV needs to show that it can maintain its strategic focus and meet clear, pressure-tested, operating targets in order to reduce financing costs and gain a stable, buy-and-hold investor base. Sensitivities in our financial and valuation outlook are largely execution dependent including:

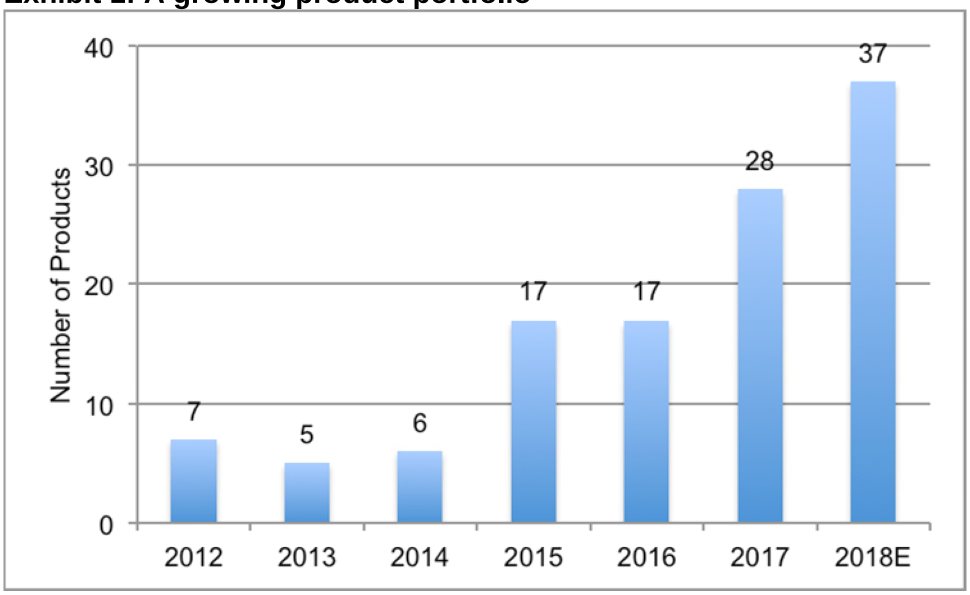
- New product acquisitions/launches
- Addressable market and product lifecycle
- Subscription persistency
- Marketing spend
- Financing costs
- Regulatory changes

COMPANY DESCRIPTION

Innovus Pharmaceutical is an emerging player in the OTC, consumer health and supplements to improve sexual health, urology, pain, allergy and brain function. Innovus' products primarily target customers over the age of 50. The Company markets to customers through newspaper/print advertising, direct mail, retail and online through both its own websites and aggregators such as Amazon.

Innovus was founded in 2011, going public through a reverse merger in 2013. In our view, the Company resembled an advanced start up until six months ago when it started to formalize operational processes in support of rolling out its *Beyond Human* multi-pronged marketing approach across all product lines. We anticipate that the additional experienced staff and internal metrics will enable the Company to improve its story to investors, manage growth, and ultimately increase investor confidence in the company and its business strategy.

Exhibit 1: A growing product portfolio



Source: Company filings, Zacks estimates.

Diverse product line expanding in US, Canada and international markets:

Innovus sells 32 commercial products, primarily in the US. Twelve of these products are sold in multiple countries around the world through 16 international commercial partners. While the Company does not disclose individual product revenues, UriVArx, Apeaz, Vesele, Diabasens, and Sensum are the top-selling products. As of the 2Q18, international sales made up 16% of total sales, 75% of which came from sales into Canada.

Innovus was built on a foundation of OTC products and supplements in the sexual health space. However, the Company has diversified its portfolio to include urologic health, allergies, pain relief and brain health. The following table lists INNV's products, distribution methods and current geographies.

Exhibit 2: Key Innovus categories, products, channels and geographies

Therapeutic Category	Key Products	Type	Distribution	Geographies
Sexual health and well-being	**Vesele**	Supplement	Beyond Human platform and online vendors	US, Canada, UK
	Vasele NO test strips	Device	Beyond Human platform and online vendors	US, Canada
	Zestra	Topical	Beyond Human platform, online vendors, international distributors, retail	US, Canada, UK, select EU, Asia, MENA
	Zestra Glide	Topical lubricant	Beyond Human platform, online vendors, international distributors, retail (Canada)	US, Canada, MENA
	EjectDelay	OTC	Beyond Human platform, online vendors, retail (Canada)	US, Canada, MENA
	Sensum*	Topical	Beyond Human platform, online vendors, international distributors	US, Canada, Morocco
	Andoferti	Supplement	Beyond Human platform, online vendors, retail (US)	US, Canada
	PEVArx	Supplement	Beyond Human platform and online vendors	US, Canada
	Beyond Human testosterone booster	Supplement	Beyond Human platform and online vendors	US, Canada
Urinary/Hemorrhoid	**UriVArx***	Supplement	Beyond Human platform, online vendors, retail (US)	US, Canada
	UriVArx UTI strips		Beyond Human platform and online vendors	US, Canada
	ProstaGorx	Supplement	Beyond Human platform, online vendors, retail (US)	US, Canada
	Xyralid	OTC topical		
	Xyralid suppositories	OTC	Beyond Human platform and online vendors	US, Canada
Pain/Arthritis	**Apeaz**	OTC	Beyond Human platform, online vendors, retail (Canada)	US, Canada
	ArthriVarx	Supplement	Beyond Human platform and online vendors	US, Canada
Allergy	**FlutiCare**	OTC	Beyond Human platform and online vendors, distributors, retail	US, Canada
	AllerVarx	Supplement	Beyond Human platform and online vendors	US, Canada
Metabolic	**DiabaSens**	Topical supp.	Beyond Human platform and online vendors	US, Canada
	Beyond Human Blood Sugar	Supplement	Beyond Human platform and online vendors	US, Canada
Eye care	CanC drops*	OTC	Beyond Human platform and online vendors, distributors, retail	US, Canada
	CanC capsules*	Supplement	Beyond Human platform and online vendors	US, Canada
	Beyond Human Eagle Vision	Supplement	Beyond Human platform and online vendors	US, Canada
Other Conditions	RecalMax (memory)	Supplement	Beyond Human platform and online vendors	US, Canada
	RecalMax NO test strips	Device	Beyond Human platform and online vendors	US, Canada
	MZS (sleep aid)*	Supplement	Beyond Human platform and online vendors	US, Canada
Other supplements (*Beyond Human* branded)	Ketones, krill oil, omega 3 fish oil, colon cleanse, green coffee, human growth		Beyond Human platform and online vendors	US, Canada

Source: Company Reports, Zacks; Core products in ***bold type;*** ** Licensed products*

New product development and commercialization are at the heart of INNV's business strategy. The Company nearly doubled its product portfolio in the past two years – from 17 to 32 in the most recent quarter -- through a combination of internal development, licensing and acquisitions. The Company has diversified its therapeutic indications to include pain, allergies and brain health on top of its core sexual and urologic health indications. INNV's product line has also added diagnostic test strips and a blood glucose monitor to its product mix. We expect INNV to generate revenues from 37 products by the end of 2018.

Exhibit 3: Innovus product pipeline

Product	Product category	Type	Timing	Comment
GlucoGorx strips*, glucometer and lancing device	Metabolic/blood sugar	510k device and disposables	2H18	To be packaged with GlucoGorx supplement; strips also sold separately
Carvanum	Leg cramps	Topical	2H18	Proprietary carvacrol molecule and other molecules (ligand)
Neuriterx	Nerve support	Supplement	2H18	
Musclin*	Muscle growth	Supplement	2H18	Combines FDA generally-recognized as safe (GRAS) approved ingredient, licensed molecules - thymol and carvacrol
Regenerum*	Cachexia/muscle growth	Supplement	2019	Two proprietary molecules: TRPV3 activator, other energy receptor. Undergoing clinical testing.
Unnamed PDE5 inhibitor*	Sexual health/erectile dysfunction	OTC	TBD	Generic version of Tadalafil (Cialis)

*Source: Company Reports, Zacks; * Licensed products – PDE5 Inhibitor agreement is pending*

Two of the pipeline products – Carvanum and Neuriterx, will round out INNV's suite of pain relief products that includes Apeaz and ArthriVarx for joint pain and recently launched Diabasens, a cream for neuropathic pain associated with diabetes. There appears to be high demand for pain relief products from INNV's customers. Diabasens, which was the focus of INNV's 2Q18 direct mail campaign, sold more than 24,000 units in the first half of 2018, almost 20,000 of which were sold in the second quarter alone. We believe that increasing scrutiny and restrictions on opioid pain relievers will drive consumers to look for other solutions – including supplements.

On its 2Q18 call, management announced that it was negotiating a potential deal to develop a generic version of tadalifil (Cialis) for OTC sale. Cialis generated just under $600m in sales for 2017, but has struggled to grow in the past couple of years as insurers have reduced coverage for erectile dysfunction (ED) products and as patents begin to expire. The FDA has not approved an Rx to OTC switch for ED drugs; however, it is available without prescription in the UK. As Cialis can be taken daily, we believe that it may be the first drug to be approved to buy without prescription in the US.

VALUATION

We are initiating on Innovus Pharmaceutical with a valuation of $0.42 per share, based on a DCF model of the business.

Discounted cash flow valuation

Our 10-year DCF model builds to sales of approximately $158m by 2027. We model terminal sales with an EBIT margin of 15% and a 35% tax rate. We assume a terminal growth rate of 2% and use a WACC of 15.0%. Our WACC reflects both INNV's current high financing costs as well as its relatively recent transition from start up to true operating status. On this basis, our DCF implies an intrinsic value of $0.42 per share.

Exhibit 4: Scenario analysis

		Terminal EBIT Margin				
		7%	**11%**	**15%**	**19%**	**23%**
WACC	**12.0%**	0.41	0.49	0.58	0.67	0.76
	13.0%	0.37	0.44	0.52	0.59	0.67
	14.0%	0.33	0.40	0.46	0.53	0.59
	15.0%	0.30	0.36	**0.42**	0.47	0.53
	16.0%	0.28	0.33	0.38	0.43	0.48
	17.0%	0.26	0.30	0.34	0.39	0.43
	18.0%	0.24	0.28	0.32	0.35	0.39

Source: Zacks estimates

Peer Comparison

We review market valuations for small and mid-cap nutraceutical companies based in the U.S. It is important to note that this peer group varies widely in business models, profitability, market capitalization and valuation. The average prospective P/E valuations for our peer group are in the mid-twenties. P/S ratios range widely from the low single digits for retail-based chains such as Vitamin Shoppe (VSI-$12.00) and GNC (GNC - $3.91) to nearly 30x for USANA (USNA-$124.10).

Innovus does not approach these valuations until late 2019 early 2020 for several reasons:

- Company is not GAAP or cash-flow positive at this point
- The company is of smaller size and lower liquidity than much of its peer group
- It is currently an emerging growth venture, albeit one with a robust product portfolio and pipeline.

For reference, a peer group of nutraceutical companies trades on an average year one consensus P/E of 26.3x and one-year consensus price-to-sales of 12.6x. Innovus currently trades at 0.9x our 2018 revenue estimate.

Exhibit 5: Peer Comparison

	Price ($)	Market Cap ($ M)	Price to Sales 2017	Price to Sales 2018	Price to Sales 2019	P/E 2017	P/E 2018	P/E 2019
Herballife (HLF)	54.76	8,636.6	19.5	17.7	16.7	21.2	19.3	16.9
NuSkin (NUS)	84.52	4,636.1	20.3	17.4	16.8	35.8	23.3	20.2
GNC (GNC)	3.91	269.0	1.1	1.2	1.2	NM	8.0	10.0
Vitamin Shoppe (VSI)	12.00	288.6	2.4	2.6	2.6	NM	70.6	57.1
USANA (USNA)	124.10	3,524.4	49.1	29.6	27.3	44.6	24.9	21.5
Lifevantage (LFVI) - June	12.20	172.5	8.5	-	-	29.8	21.0	NA
Cyanotech (CYAN) - Mar	3.65	20.8	6.5	6.1	-	NM	20.3	NA
Mannatech (MTEX)	20.10	54.4	3.1	-	-	NM	NA	NA
Natural Alternatives (NAII) - June	9.60	63.1	5.2	-	-	8.8	NA	NA
Nature's Sunshine (NATR)	9.00	169.9	5.0	-	-	NM	NA	NA
Innovus Pharmaceuticals (INNV)	0.12	24.2	2.7	0.9	0.6	-3.4	-3.2	-11.1
Average			12.3	12.6	13.0	27.4	26.3	22.9

Source: Company Reports, NM= Not meaningful, NA= Not available Note: LFVI and NAII have June year-end, CYAN has March year-end.

SENSITIVITES AND RISKS

In many ways, Innovus Pharmaceutical has only recently moved out of an advanced start-up phase to full commercial operations. The Company has taken several important steps to fill its team with financial and marketing/operating expertise and is building out internal controls and executive information systems. How quickly the company is able to make these improvements along with the factors listed below, will play a significant role in our financial outlook and valuation.

New product acquisitions/launches

INNV's business is highly dependent on its ability to identify and commercialize products that resonate with its customer base. The Company is fortunate to have a CEO and head of business development with strong track records in this matter. Moreover, we believe that the addition of senior operating and financial professionals will take the burden of operating matters off the CEO's plate, freeing him up to focus on keeping the product pipeline full. We expect INNV to have 37 products on sale by the end of 2018, up from 28 in 2017 and 17 at the end of 2016. The company has five products in its development pipeline, including a pending deal to develop of generic version of Cialis (tadalifil) for the OTC consumer market. Finalization of the tadalifil deal, as well as other new molecules/products will improve both our outlook as well as investor confidence.

Addressable market and product lifecycle

Innovus differs from most pharmaceutical/specialty pharmaceutical companies as it currently focuses on OTC and supplements – where overall market trends are difficult to discern. It is easier to pressure test sales assumptions and progress in the mainstream drug industry because there is clear data on disease incidence, prescription trends and therapeutic adoption. In addition, we can rely on tremendous data available on retail sales and market share.

It is more of a challenge to gauge progress at Innovus versus its competition because of both the nature of its products and its direct marketing (largely non-retail) strategy. First, the OTC market is highly fragmented even at retail. For example, 2012 report by A.T. Kearney cites data from Euromonitor showing that in key categories such as analgesics, cold remedies and digestive aids, total market share for the top four brands is less than 15% in each category. This dynamic creates a significant opportunity for Fluticare and the potentially the tadalifil generic, but it also highlights the competitive challenge ahead of dominating a particular market segment.

Second, the supplements market relies more on customer interest than disease incidence. There are few blockbuster perennial products in the supplements market – particularly at a brand level. It is a marketing-driven business, where demand can wax and wane. As a result, marketing investment in the supplements market is not as "sticky" as in OTC and prescription drugs.

Finally, INNV's commitment to direct marketing and media advertising limits its ability to compete against brands that people "see" when they shop. We are not aware of any reliable source of independent data on particular product sales in direct marketing. We expect to be able to gauge the efficacy of INNV's marketing through various internal metrics. Innovus is working to grow its retail presence for certain products (after backing away from growing its retail strategy as recently as Q118) but the key will be signing deals with the right vendors as its previous attempts to work with wholesalers has led to minimal sales.

Subscription persistency

INNV is pushing hard to build its subscription program, which is key to reduce marketing costs as a percent of sales. Under its subscription program, customers are shipped product monthly. Early numbers are good as far getting customers to sign up for a subscription to products such as UriVArx and Vesele. In 2Q18, subscription sales accounted for approximately 10% of product revenues. We will have to wait to see how much that number increases in 3Q18 as the company sends follow-on subscription shipments and gets feedback on cancellations. To date, customers have generally stayed on a subscription for about six-months (an initial buy and three follow-ons). If the company is able to both increase the number of subscriptions and how long customers keep a subscription, it will lead to both a significant improvement in marketing expense as a percent of sales as well as an improvement in valuation as investors see that the subscription model is sustainable and reduce their risk expectations accordingly.

Sales and marketing spend

Sales and marketing are a significant expense for INNV, accounting for 76% of sales in 2Q18. When the company raised its revenue goals in 2Q18 and surpassed its guidance, we expected that much of the upside would fall to the operating line as profit. Unfortunately, the $2.7 million sequential increase in product sales was driven in part by a c.$2.0 million sequential increase in marketing spend. We felt the size of the step up was not communicated prior to reported results and while the spend clearly helped reported sales, it also held back profitability more than we anticipated.

Reduction in borrowing costs

Innovus spends over $0.3m in interest every quarter. Reducing borrowing costs is a priority for management. The question is how quickly this can be implemented. The Company relies on short-term private lenders to meet its working capital needs. This type of debt may have relatively low coupon rates, but it also includes equity commitments and other costs. As a result, management indicates that the effective cost of its financing is generally equal to debt with a 30% coupon rate. We note that at the end of March, INNV had $4.9m in cash on its balance sheet and by June 30, the amount had dwindled to $1.6m. While the Company indicated that it had funding to support the business through April 2019, we believe that depending on marketing spend, new sales, and the ability to reduce its borrowing costs, it is likely that INNV may need additional funding before the April 2019 timeframe.

Regulatory changes

The pharmaceutical and nutraceutical industries are subject to regulatory insight, particularly as it relates to claims. Oversight is more lax in the nutraceutical (supplement) space, where products can be sold for months or years before "misleading" claims or negative side effects are found – particularly in the US. In the past, such problems have led to a reduction or entire loss of sales for a product or category, the cost to change claims, product bans and/or fines.

FINANCIALS

The opportunity for Innovus is significant; however with relatively limited sales data and few data points on the long-term prospects of its comprehensive marketing program, there is uncertainty as to how revenues and spending will ramp up over the next few years. In addition, the Company is close to breakeven, so a modest swing in spend will have an outsized effect on earnings. Quarterly updates are likely to be the primary catalysts for the share price.

Profit and loss

In August, INNV reported 2Q18 results. 2Q18 revenues of $7.3m rose 259% from a year ago and 61% on a sequential basis. Product sales rose 243% over the year-earlier period, and 53% sequentially. Sales were driven by the rollout of INNV's direct mail strategy with a 600k piece mailing for Diabasens. The Company posted over $0.3m in service and cooperative marketing revenue in the quarter – new revenue lines for the Company.

Gross margins in the quarter remained steady at 81%; however, marketing expense climbed c. $2.0m sequentially to $5.5m, or 76% of sales largely from the direct mail rollout. The Company indicates that marketing expense will likely stay in this range as a percent of sales for the rest of the year. General and administrative expense is leveling off and in line with our expectations at $1.9m.

Operating loss increased to $1.5m compared with $1.1m in the year-earlier period largely from the higher marketing and G&A as a percent of sales.

Interest expense tripled to $0.3m in the quarter from $0.1m in the year earlier period and reflect the costs associated with a debt financing in January 2018. Reducing financing costs remains a significant opportunity and is a priority for management.

The second quarter net loss of $1.8m was flat on a sequential basis, up $0.7m on a year-to-year basis.

Our model calls for 2018 revenues to total $27.6m. We look for product revenues of $26.6m, up 202% from $8.8m in 2017. We also look for service and cooperative marketing revenues to contribute approximately $1.0m in revenues. Increased traction for both existing and new products should help sales as should an increase in subscriptions.

We expect higher marketing and interest expense to keep the Company at a net loss for 2018 - even if we exclude one-time items. Although we have kept marketing expense flat as a percent of sales for the year, we believe there may be a big marketing push in 4Q to attract customers who are looking to buy supplements as part of their 2019 New Year's resolutions. While the Company will book the marketing expense in 4Q, the revenues won't be booked until 2019.

We look for INNV to post an operating loss of $5.8m for the year and a net loss of $7.3m or $(0.04) per share.

Our model has revenues of $56.0m by 2021, including $54.2m of product sales, a compound average annual rate of 27% from 2018. There is certainly room for upside to our numbers depending on new product introductions (especially the Company's pending OTC generic PDE5 inhibitor agreement). However, we believe it is prudent to expect a slowdown in total revenue growth from the law of large numbers and saturation of the existing product base.

We are keeping gross margins at 81% through 2021 and expect profitability to benefit from operating leverage in marketing expense and G&A. We've modeled marketing expense to drop 3000bp to 47% of total revenues by 2021, compared with c.76% for 2018. Separately, we have modeled G&A to increase c. 5% annually from 2018-2021. As a percent of sales, we expect G&A expense to fall 800bp to 15.7% of revenues from c. 27-28% currently. Our operating margin for 2021 is 18.9%, while our net margin is 14% on a 20% tax rate. There is upside to our profitability expectations if INNV can successfully lower its borrowing costs. If the Company pays off its debt by 2021, our EPS expectation would increase by approximately $0.01 – or c. 25%.

Cash flow

INNV is not currently cash flow positive, consistent with its early commercialization status. On previous conference calls, the company has discussed being cash flow breakeven by the end of 2018; however, we think that goal may be a stretch. As we note above, there is a lag between marketing expense and revenue recognition, meaning that the company will always need several million or more in cash on hand to fund its marketing program each quarter. However, if the Company moves away from large, one-time mailers (which resulted in the $2m marketing expense increase in 2Q18), to a program of smaller, more frequent mailers as is customary in the direct mail industry, its revenue and expense matching is likely to improve. A move to smaller, more frequent, marketing campaigns will provide better feedback on what works which should help profitability.

INNV indicates that it has six-months of product on hand, which is a significant use of cash for a rapidly growing company. Inventory levels may reflect the relatively low current sales and the rapid pace of forecasted revenue growth. We think longer-term that the Company could reduce its working capital needs by lowering its inventory levels to something closer to three months on hand.

As we've noted, INNV still relies largely on high-cost, short-term financing to meet its working capital needs. While much of this debt has a low coupon rate, it generally includes equity – and the effective cost of capital is often north of 30% on an annual basis.

Our model has sales sensitive working investment of c.7% in 2021, down from 12% in 2017 and 10% currently. On this basis, we believe that the company will break even on a CFFO basis in 2019 or 2020.

Balance Sheet

At June 30, 2018, INNV had $1.6m in cash on its balance sheet -- largely flat with cash at December 31, 2017, but down from $4.9m at the end of March. Management previously indicated that it has enough cash on hand until April 2019; however, we think that another financing is possible before then. Whether or not INNV goes out to raise funds will depend on the timing and magnitude of subscription-based sales as well as plans for additional large marketing efforts – such as the 600k direct mail piece in 2Q18.

Moving to profitability will help INNV self-finance its working capital needs as will a reduction in inventory levels and borrowing costs. We believe that management is focused on all three factors, but it is too early to determine when INNV can make those changes.

FINANCIAL MODEL *(pg 1 of 2)*

Innovus Pharmaceuticals

USD (000s)	2016a	2017a					2018e				
	Year	Q1	Q2	Q3	Q4	Year	Q1a	Q2a	Q3	Q4	Year
REVENUES											
Product sales, net	4,817.60	2,177.29	2,031.16	2,218.34	2,379.51	8,806.30	4,542.03	6,970.31	7,310.00	7,785.00	26,607.34
License revenue	1.00	-	7.50	2.50	-	10.00	2.58	2.58	2.50	2.50	10.16
Service revenue		-	-	-	-	-	-	155.65	155.65	155.65	466.94
Cooperative marketing revenue		-	-	-	-	-	-	183.64	183.64	183.64	550.91
Net Revenue	4,818.60	2,177.29	2,038.66	2,220.84	2,379.51	8,816.30	4,544.60	7,312.17	7,651.78	8,126.78	27,635.35
OPERATING EXPENSES											
Cost of product sales	(1,083.09)	(440.48)	(408.58)	(480.08)	(519.19)	(1,848.33)	(864.10)	(1,338.95)	(1,388.90)	(1,479.15)	(5,071.10)
Gross profit (products)	3,734.51	1,736.81	1,622.58	1,738.27	1,860.32	6,957.98	3,677.93	5,631.36	5,921.10	6,305.85	21,536.24
% of product revenues	*77.5*	*79.8*	*79.9*	*78.4*	*78.2*	*79.0*	*81.0*	*0.81*	*0.81*	*0.81*	*0.81*
Gross profit (total net revenues)	3,735.51	1,736.81	1,630.08	1,740.77	1,860.32	6,967.98	3,680.51	5,973.22	6,262.88	6,647.63	22,564.25
% of total revenues	*0.78*	*0.80*	*0.80*	*0.78*	*0.78*	*0.79*	*0.81*	*0.82*	*0.82*	*0.82*	*0.82*
Research & development	(77.80)	(3.18)	(15.06)	(8.74)	(11.83)	(38.81)	(11.29)	(22.61)	(22.61)	(22.61)	(79.10)
Sales & marketing	(3,621.05)	(1,687.35)	(1,555.74)	(1,626.63)	(1,983.84)	(6,853.56)	(3,301.78)	(5,528.89)	(5,738.84)	(6,095.09)	(20,664.60)
General & administrative	(5,870.57)	(1,704.66)	(1,182.24)	(1,321.00)	(966.93)	(5,174.83)	(1,696.02)	(1,919.30)	(2,000.00)	(2,000.00)	(7,615.32)
Impairment of goodwill	-	-	-		-	-					
Operating profit (loss)	(5,833.91)	(1,658.38)	(1,122.96)	(1,215.60)	(1,102.28)	(5,099.22)	(1,328.58)	(1,497.57)	(1,498.56)	(1,470.06)	(5,794.77)
OTHER INCOME (EXPENSE)											
Interest expense	(6,631.39)	(557.48)	(110.13)	(104.28)	(100.28)	(872.17)	(241.88)	(325.98)	(325.98)	(325.98)	(1,219.83)
Loss on extinguishment of debt	-	(304.83)	-	(89.34)	(305.89)	(700.06)	(255.69)	(38.59)	-	-	(294.27)
Other income (expense), net	1.65	(0.62)	(0.21)	(4.80)	(1.26)	(6.88)	0.11	0.27	-	-	0.38
Fair value adjustment for contingent consideration	(1,300.16)	27.18	98.98	69.31	(1.43)	194.03	(2.85)	21.64	-	-	18.80
Change in fair value of derivative liabilities	65.06	(51.66)	3.46	16.06	15.54	(16.60)	-	-	-	-	-
Total other income (expense)	(7,864 84)	(887 40)	(7 89)	(113 06)	(393 31)	(1,401 67)	(393 31)	(342 66)	(325 98)	(325 98)	(1,494 93)
NET INCOME (LOSS) BEFORE TAXES	(13,098.75)	(2,545.79)	(1,130.85)	(1,328.66)	(1,495.59)	(6,500.89)	(1,828.89)	(1,840.23)	(1,824.54)	(1,796.04)	(7,289.70)
Provision for (benefit from) income taxes	2.40	-	3.20	-	-	3.20	-	-	-	-	
NET INCOME (LOSS)	(13,701.15)	(2,545.79)	(1,134.05)	(1,328.66)	(1,495.59)	(6,504.09)	(1,828.89)	(1,840.23)	(1,824.54)	(1,796.04)	(7,289.70)
NET INCOME (LOSS) PER SHARE - BASIC $	(0.14)	(0.02)	(0.01)	(0.01)	(0.01)	(0.04)	(0.01)	(0.01)	(0.01)	(0.01)	(0.04)
Weighted average share outstanding basic (000)	94,106.4	135,099.2	159,997.4	161,587.9	174,575.4	157,933.5	186,933.6	205,106.9	205,106.9	205,106.9	200,563.6
Expense Ratios (% of total revenues)											
COGS	22.5%	20.2%	20.0%	21.6%	21.8%	21.0%	19.0%	18.3%	18.2%	18.2%	18.4%
Research and development	1.6%	0.1%	0.7%	0.4%	0.5%	0.4%	0.2%	0.3%	0.3%	0.3%	0.3%
Sales and marketing	75.1%	77.5%	76.3%	73.2%	83.4%	77.7%	72.7%	75.6%	75.0%	75.0%	74.8%
General and administrative	121.8%	78.3%	58.0%	59.5%	40.6%	58.7%	37.3%	26.2%	26.1%	24.6%	27.6%
Margins											
Gross margin (product revenues)	77.5%	79.8%	79.9%	78.4%	78.2%	79.0%	81.0%	80.8%	81.0%	81.0%	80.9%
Gross margin (total revenues)	77.5%	79.8%	80.0%	78.4%	78.2%	79.0%	81.0%	81.7%	81.8%	81.8%	81.6%
Operating margin (pre-exceptionals)	-121 1%	-76 2%	-55 1%	-54 7%	-46 3%	-57 8%	-29 2%	-20 5%	-19 6%	-18 1%	-21 0%
Pretax margin (pre-exceptionals)	-258.7%	-101.8%	-60.5%	-59.6%	-50.6%	-67.8%	-34.6%	-24.9%	-23.8%	-22.1%	-25.4%
Pretax margin (post-exceptionals)	-284.3%	-116.9%	-55.5%	-59.8%	-62.9%	-73.7%	-40.2%	-25.2%	-23.8%	-22.1%	-26.4%
Net margin	-284.3%	-116.9%	-55.6%	-59.8%	-62.9%	-73.8%	-40.2%	-25.2%	-23.8%	-22.1%	-26.4%

Source: Company filings, Zacks Investment Research estimates.

FINANCIAL MODEL *(pg 2 of 2)*

Innovus Pharmaceuticals

USD (000s)	2019e Q1	2019e Q2	2019e Q3	2019e Q4	2019e Year	2020e Year	2021e Year
REVENUES							
Product sales, net	8,595.20	9,307.50	10,076.70	9,661.60	37,245.00	44,305.00	54,167.00
License revenue	2.60	2.60	2.60	2.60	10.40	12.00	14.00
Service revenue	155.65	155.65	163.43	171.60	646.33	712.58	785.62
Cooperative marketing revenue	192.82	202.46	206.51	210.64	812.42	931.88	1,068.91
Net Revenue	8,946.27	9,668.21	10,449.24	10,046.44	38,714.15	45,961.46	56,035.52
OPERATING EXPENSES							
Cost of product sales	(1,633.09)	(1,768.43)	(1,914.57)	(1,835.70)	(7,151.79)	(8,417.95)	(10,291.73)
Gross profit (products)	6,962.11	7,539.08	8,162.13	7,825.90	30,489.21	35,887.05	43,875.27
% of product revenues	*0.81*	*0.81*	*0.81*	*0.81*	*0.82*	*0.81*	*0.81*
Gross profit (total net revenues)	7,313.18	7,899.78	8,534.67	8,210.74	31,562.36	37,543.51	45,743.79
% of total revenues	*0.82*	*0.82*	*0.82*	*0.82*	*0.82*	*0.82*	*0.82*
Research & development	(22.00)	(22.00)	(22.00)	(22.00)	(88.00)	(100.00)	(100.00)
Sales & marketing	(6,083.46)	(6,090.97)	(6,269.54)	(5,826.94)	(24,270.91)	(24,774.85)	(26,255.63)
General & administrative	(2,000.00)	(2,015.27)	(2,100.00)	(2,100.00)	(8,215.27)	(8,626.03)	(8,798.55)
Impairment of goodwill							
Operating profit (loss)	(792.28)	(228.45)	143.12	261.80	(1,011.81)	4,042.62	10,589.61
OTHER INCOME (EXPENSE)							
Interest expense	(300.00)	(300.00)	(300.00)	(300.00)	(1,200.00)	(1,200.00)	(800.00)
Loss on extinguishment of debt	-	-	-	-		-	-
Other income (expense), net	-	-	-	-		-	-
Fair value adjustment for contingent consideration	-	-	-	-		-	-
Change in fair value of derivative liabilities	-	-	-	-		-	-
Total other income (expense)	(300.00)	(300.00)	(300.00)	(300.00)	(1,200.00)	(1,200.00)	(800.00)
NET INCOME (LOSS) BEFORE TAXES	(1,092.28)	(528.45)	(156.88)	(38.20)	(2,211.81)	2,842.62	9,789.61
Provision for (benefit from) income taxes	-	-	-	-	-	(284.26)	(1,957.92)
NET INCOME (LOSS)	(1,092.28)	(528.45)	(156.88)	(38.20)	(2,211.81)	3,126.89	7,831.69
NET INCOME (LOSS) PER SHARE - BASIC $	(0.01)	(0.00)	(0.00)	(0.00)	(0.01)	0.01	0.03
Weighted average share outstanding basic (000)	209,209.1	213,393.2	213,393.2	213,393.2	212,347.2	224,062.9	231,972.3
Expense Ratios (% of total revenues)							
COGS	18.3%	18.3%	18.3%	18.3%	18.5%	18.3%	18.4%
Research and development	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Sales and marketing	68.0%	63.0%	60.0%	58.0%	62.7%	53.9%	46.9%
General and administrative	22.4%	20.8%	20.1%	20.9%	21.2%	18.8%	15.7%
Margins							
Gross margin (product revenues)	81.0%	81.0%	81.0%	81.0%	81.9%	81.0%	81.0%
Gross margin (total revenues)	81.7%	81.7%	81.7%	81.7%	81.5%	81.7%	81.6%
Operating margin (pre-exceptionals)	-8.9%	-2.4%	1.4%	2.6%	-2.6%	8.8%	18.9%
Pretax margin (pre-exceptionals)	-12.2%	-5.5%	-1.5%	-0.4%	-5.7%	6.2%	17.5%
Pretax margin (post-exceptionals)	-12.2%	-5.5%	-1.5%	-0.4%	-5.7%	6.2%	17.5%
Net margin	-12.2%	-5.5%	-1.5%	-0.4%	-5.7%	6.8%	14.0%

Source: Company filings, Zacks Investment Research estimates.

LEADERSHIP

Management

Bassam Damaj, Ph.D. - *President and Chief Executive Officer*

Prior to joining Innovus Pharma, Bassam Damaj served as President and Chief Executive Officer of Apricus Biosciences, Inc. (NASDAQ: APRI), a specialty pharmaceutical company where he was responsible for the approval of its lead drug Vitaros™, a treatment for erectile dysfunction. Damaj also signed multimillion-dollar partnerships between Apricus Bio and leading pharmaceutical companies such as Abbott, Novartis-Sandoz and Takeda. He was also a Co-founder of Bio-Quant, Inc., serving as the Chief Executive Officer/Chief Scientific Officer and managing the board of directors from its inception in June 2000 until its 2009 acquisition by Apricus Biosciences. In addition, Damaj was the Founder/Chairman/President/Chief Executive Officer of R&D Healthcare, and the Co-Founder of Celltek Biotechnologies. He also served as a Director of the Board of Directors at CreAgri, Inc. and was partof the Scientific Advisory Board of MicroIslet, Inc. He authored Immunological Reagents and Solutions: A Laboratory Handbook (2000) and won a U.S. Congressional Award for the Anthrax Multiplex Diagnostic Test in 2003. Damaj holds a Ph.D. degree in Immunology/Microbiology from Laval University and completed a postdoctoral fellowship in Molecular Oncology at McGill University.

Randy Berholtz, M.B.A./J.D. - *Executive Vice President, Corporate Development and General Counsel*

In addition to his responsibilities as Executive Vice President and Corporate Development and General Counsel, Randy Berholtz is also the Secretary of the company. He was the founding partner of the Sorrento Valley Law Group and is the former Executive Vice President and General Counsel and Secretary of Apricus Biosciences, Inc. (NASDAQ: APRI), a specialty pharmaceutical company. Prior to that time, he was the Vice President, General Counsel and Secretary of ACON Laboratories, Inc., a group of Chinese and U.S. life sciences companies. He has also been the Chief Operating Officer and General Counsel of IngleWood Ventures, L.P., a life sciences venture capital company, and the Interim General Counsel and Secretary of Nanogen, Inc. (NASDAQ: NGEN), a genomics tools company. He has also been an attorney with the law firms, including Heller Ehrman LLP, Cooley LLP, Kirkpatrick & Lockhart LLP (now K&L Gates LLP) and Cravath, Swaine & Moore LLP. He has a Bachelor of Arts degree from Cornell University, a Master of Arts degree from Oxford University (he was a Rhodes Scholar), and a Juris Doctor degree from Yale Law School - where he was a Senior Editor of *the Yale Law Journal* - and an MBA from the University of San Diego School of Business.

Ryan Selhorn, CPA - *Vice President, Chief Financial Officer*

Ryan has served as our Vice President and Chief Financial Officer since April 27, 2018. From July 2013 to April 2018, he was the Chief Financial Officer and Chief Accounting Officer of Signature Analytics, an outsourced finance and accounting firm. From October 2003 to July 2013, he was an Audit Senior Manager with Grant Thornton LLP, a financial accounting firm. Mr. Selhorn has significant experience with venture financings, public equity offerings, public debt offerings, mergers and acquisitions, interaction with the SEC and PCAOB, and implementation and monitoring compliance with the requirements of the Sarbanes-Oxley Act. Additionally, Mr. Selhorn has participated in several financial due diligence processes for acquisitions and capital financings. Mr. Selhorn received his B.S. in Accounting and Finance from Georgetown University, McDonough School of Business, and he is a certified public accountant in California.

Christopher Stella - *Vice President of Operations*

Christopher Stella has served as our Vice President of Operations since June 2018. From February 2014 to June 2018 he was President and CEO of Stella Marketing Group, a specialty marketing firm supporting the natural products industry including major public and private health and beauty companies advertising through various direct-to-consumer channels. One of which, Innovus Pharmaceuticals, where he worked directly with management and helped the company exceed revenue targets in both 2017 and 2018. From September 2013 to February 2014, he worked at Nutraclick, a technology-driven health and wellness products company, where he developed the marketing campaigns for their four leading brands found in both major retail outlets such as GNC, Walmart and CVS and popular ecommerce platforms. Mr. Stella received his Bachelor of Economics from the University of Massachusetts at Amherst with minors in both Chinese and Finance from the School.

Board of Directors

Henry Esber, Ph.D. - *Chairman of the Board*

Esber has been the Chairman of the Board since 2012 and served as a Director since January 2011. He is also the Chairperson of the Compensation Committee and is a member of the Audit and Governance and Nominating Committees. In 2000, Esber co-founded Bio-Quant, Inc. and served as its Senior Vice President as well as Chief Business Development Officer for 10 years. He has over 35 years of experience in the pharmaceutical service industry, including tenures as the Executive Director of Business Development at Charles River Laboratories and Director of the Department of Immunology and Clinical Services at TSI Mason. Furthermore, he served on the Board of Directors of Apricus Biosciences, Inc. (NASDAQ: APRI) and currently serves at several privately-held pharmaceutical companies.

Ziad Mirza, M.D. - *Director*

Mirza has served as a Director since 2010 and was previously the Chairman of the Board. He is the Chairperson of the Governance and Nominating Committee and is a member of the Audit and Compensation Committees. He is also the President and Co-founder of Baltimore Medical and Surgical Associates and currently serves as the Medical Director of six nursing homes in the Baltimore area and as the Medical Director of The Greater Baltimore Medical Center Wound Care and Hyperbaric Unit. Mirza is currently enrolled as an investigator in Stem Cell Research in Diabetic Foot Ulcers, and is double boarded in Internal Medicine, Dive and Hyperbaric Medicine - in 1999, he became a Certified Medical Director of long-term care through the American Medical Directors Association. In 2003, Mirza received accreditation as a Certified Physician Executive from the American College of Physician Executives (ACPE), and in 2007, he obtained his MBA in Health Care from the University of Massachusetts.

Vivian Liu - *Director*

Before becoming a Director, Liu served as the President and CEO from 2011 to 2012. She is the Chairperson of the Audit Committee and is a member of the Compensation and Governance and Nominating Committees. In 1995, she co-founded NexMed, Inc., which was renamed Apricus Biosciences, Inc. (NASDAQ: APRI) in 2010, and served as the President and Chief Executive Officer from 2007-2009, after having served in various executive capacities. Liu was appointed to the NexMed Board of Directors in 2007 and served as its Chairman from 2009 to 2010. Prior to co-founding NexMed, she was the Commercial Attaché with the Delegation of Quebec in Los Angeles, responsible for business development projects for the medical, pharmaceutical and biotechnology industries. Liu is currently a partner at OxOnc Development LP, a privately-held oncology development company funded by Orbimed Advisors, and a member of the Board of Directors of Cesca Therapeutics, Inc., (Nasdaq: KOOL), as well.

Dean Nuhaily - *Director*

Dean Nuhaily is the President and Founder of the Shoe Shack Corporation. He has served on the Board since May 2018. He is serial retail and franchise entrepreneur and the co-founder and co-owner of Work Zone Inc. Mr. Nuhaily served as the community representative for the ILAC committee at Bio-Quant, Inc. from 2006-2010 (acquired by Apricus Biosciences in 2009) and on the Board of Sorrento Pharmaceuticals, Inc. from 2010-2012. He holds a business management degree from Southwestern College of Business.

Advisory Board

Hans Christinger – *Member, Advisory Board*

Hans Christinger has served as a member of the Advisory Board since 2015. He has served in various roles leading business development and corporate development during his career with Abbott, Roche and Vertex. He brings 24-year bio-pharmaceutical experience, primarily focused on partnering, licensing, and acquisitions (products and companies) as well as divesting products. Christinger has been based both in the U.S. and abroad, and has extensive ex-U.S. experience. He has established and led teams enabling numerous global transactions as well as regional and local deals across more than 30 markets in emerging and developed markets. He began his career as a bench scientist at Genentech where he authored 15 structural biology-related peer-reviewed papers. He earned a Master of Business Administration from Babson College, a Master of Science in Chemistry from San Francisco State University, and a Bachelor of Science in Biochemistry from the University of Vermont.

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