

RXi Pharmaceuticals Corp

(RXII - NASDAQ)

Dilution Impact from Share Issuance

Based on our DCF model and a 15% discount rate, RXi Pharmaceuticals is valued at approximately \$2.00 per share. Our model applies a 15% probability of ultimate approval and commercialization for RXI-109 and Samcyprone. The model includes contributions from the US, EU and rest of world.

Current Price (10/3/2018) **\$0.57**
Valuation \$2.00

OUTLOOK

RXi Pharmaceuticals has developed a unique composition of interference RNA that is able to self-deliver into the cellular cytoplasm. The compound, sd-rxRNA, combines features of RNAi and antisense, and is able to silence unwanted gene expression with a limited side effect profile.

The company has two Phase II dermal assets and one Phase I/II ocular asset which are expected to be partnered and provide development capital for earlier stage immuno-oncology (IO) programs.

RXi recently directed its main research focus towards its preclinical IO program that is being developed to augment existing cell therapies. A favorable investment and regulatory environment are supportive of IO and should allow for rapid entry into the clinic.

We attach a valuation for the Phase I/II and Phase II assets and expect to see regulatory approvals and subsequent commercialization over the 2022 to 2024 period as described in our analysis.

SUMMARY DATA

52-Week High **7.70**
 52-Week Low **0.57**
 One-Year Return (%) **-86.9**
 Beta **1.72**
 Average Daily Volume (sh) **496,189**

Shares Outstanding (mil) **25.8**
 Market Capitalization (\$mil) **15.0**
 Short Interest Ratio (days) **9.12**
 Institutional Ownership (%) **27.2**
 Insider Ownership (%) **9.6**

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 USD)

	Q1	Q2	Q3	Q4	Year
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)
2017	\$0.0 A	\$0.0 A	\$0.0 A	\$0.0 A	\$0.0 A
2018	\$0.0 A	\$0.1 A	\$0.0 E	\$0.0 E	\$0.1 E
2019					\$0.0 E
2020					\$0.0 E

Earnings per Share

	Q1	Q2	Q3	Q4	Year
2017	-\$2.65 A	-\$1.12 A	-\$1.05 A	-\$0.84 A	-\$5.52 A
2018	-\$0.90 A	-\$0.46 A	-\$0.51 E	-\$0.09 E	-\$1.96 E
2019					-\$0.44 E
2020					-\$0.48 E

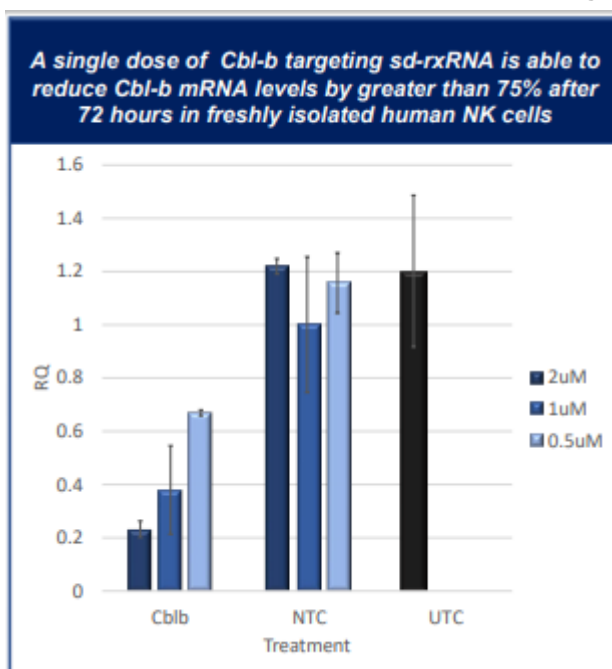
WHAT'S NEW

On October 3rd, 2018 RXi Pharmaceuticals Corp. (NASDAQ: RXII) [announced](#) it had closed its \$15 million public underwriting. 3.725 million shares were issued at \$0.70 per share and 17.702 million prefunded warrants were issued at \$0.69 per share with a \$0.01 exercise price. 21.427 million seven year warrants were also issued with an exercise price of \$0.70.

Our initial thesis for RXi Pharmaceuticals called for monetization of the dermal and ocular assets mid-year 2018, which would have allowed the company to avoid major share issuances and draw from the Lincoln Park Purchase Agreement to satisfy any near term funding needs. However, the sales process for these assets has taken longer than anticipated, leaving the company with insufficient funds to continue operations into 2019. RXi has decided to raise capital through the issuance of shares and warrants in an effort to continue its pre-clinical work for RXI-762 and maintain a strong negotiating position for the sale of Samcyprone and RXI-109. The October 3rd capital raise is sufficient along with estimated cash on the balance sheet to fund research preclinical and Phase I studies for RXI-762.

Despite the difficulties on the financing side of the equation, RXi continues to develop its immuno-oncology program. On September 26, 2018, RXi presented a poster highlighting the use of sd-rxRNA in natural killer (NK) cells for use in hematological cancers. The poster illustrated the ability of the immune effector cells to take up sd-rxRNA without the need for transfection reagents and downregulated Casitas B-lineage Lymphoma-b (Cbl-b) gene, which is a negative regulator of T-cell activation. This is important because NK cells can recognize and kill cancer cells without prior sensitization. They are the first line of defense against cancer cells but similar to T-cells have inhibitory receptors that sometimes prevent their cytotoxic activity. The use of sd-rxRNA to reduce these receptors will allow a potent anti-cancer response.

Exhibit I – Relative Quantification (RQ) of Cbl-b Downregulation



The poster also reviewed the viability of sd-rxRNA silencing in the freeze-thaw cycle and found that it was similar to that of cells that had been transfected for 72 hours without the cycle. This ability allows the sd-rxRNA to be used with existing in-development chimeric antigen receptor (CAR) therapy without changing the administration protocol.

The following exhibit is the latest pipeline graphic for RXi, which also includes several of the undisclosed compounds in adoptive cell therapy (ACT) and tumor microenvironment. The lead asset is RXI-762, which seeks to increase the expression of PD-1 in cell based therapies. Earlier stage programs are targeting the immune receptor TIGIT in solid tumors among other checkpoints. Cell differentiation is another program that is seeking to extend the life of modified immune cells so they will work longer.

Exhibit II – Rxi Pipeline

TREATMENT	INDICATION	DISCOVERY	PRE-IND	CLINICAL
Checkpoint Inhibition in ACT (TILs)	Melanoma	RXI-762		
Checkpoint Inhibition in ACT (TILs)	Ovarian Cancer	RXI-762		
Checkpoint Inhibition in ACT (TILs)	Head & Neck	RXI-762		
Checkpoint Inhibition in ACT (TCRs)	Other	RXI-762		
Checkpoint Inhibition with T-cells	Various	RXI-804		
Checkpoint Inhibition with ACT	Various	RXI-804		
Cell Maturation with ACT	Various	Undisclosed		
Cell Metabolism with ACT	Various	Undisclosed		
Direct Tumor	Melanoma	Undisclosed		
Tumor Microenvironment	Various	Undisclosed		
Tumor Microenvironment	Various	Undisclosed		

2018 Milestones:

- Capital Draw from Lincoln Park Capital – 1H:18
- Equity capital raise – 2Q:18 / 4Q:18
- Patent grant for use of sd-rxRNA targeting CTGF for treatment of fibrotic disorders – May 2018
- Partner Iovance (NASDAQ: IOVA) added for TIL competency – May 2018
- Report of Retinal Scarring trial results – 2Q:18
- Cutaneous Warts study results – May 2018, 2018 at IID
- Retinal Scarring study results – August 2018
- Partnership/Sale of Dermatology and Ophthalmology Programs – 2H:18
- Entry of Immuno-Oncology Programs into the Clinic – Late 2019

Valuation

We adjust our target price to reflect the share and warrant issuance which increases our share balance to 25.8 million. We also add anticipated warrant exercise for total diluted shares of 50.9 million. This adjustment reduces our target price to \$2 per share. We highlight the dramatic impact on target price when substantial shares and warrants are issued substantially below the target price. While the enterprise value of the company remains the same, the division of this value among a dramatically larger share base has a negative impact on target price. Our thesis for RXi was based on the receipt of non-dilutive financing from the sale of Phase 2 assets for Samcyprone and RXI-109 which has not yet taken place, resulting in the downward revaluation of our target price.

Summary

We are disappointed to see the substantial dilution from the recent share issuance but still see value in sd-rxRNA and the programs that have been advanced to Phase II. We highlight that before the transaction the entirety of the company, including the intellectual property for the sd-rxRNA approach and multiple developed programs in the dermatology and ophthalmology spaces were valued at less than \$10 million. Regarding the sale of Samcyprone and RXI-109, it appears that there are a number of interested parties performing due diligence on the dermal and ocular assets; however, the ultimate timing of a sale or whether or not a sale will take place is unclear. We see sufficient cash on the balance sheet to support operations into 2019, providing sufficient time to negotiate a deal and to obtain upfront cash to support the development of the immuno-oncology assets. Based on the share price issuance, we reduce our target price to \$2.00 per share.

PROJECTED FINANCIALS

RXi Pharmaceuticals Corp. - Income Statement

RXi Pharmaceuticals Corp	2017 A	Q1 A	Q2 A	Q3 E	Q4 E	2018 E	2019 E	2020 E
Total Revenues	\$0.0	\$0.0	\$0.1	\$0.0	\$0.0	\$0.1	\$0.0	\$0.0
<i>YOY Growth</i>								
Research & Development	\$5.4	\$1.4	\$1.2	\$1.3	\$1.4	\$5.2	\$7.0	\$8.0
Acquired In-process R&D	\$4.7	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
General & Administrative	\$4.0	\$0.9	\$0.8	\$0.9	\$0.9	\$3.5	\$4.4	\$4.5
Income from operations	(\$14.1)	(\$2.2)	(\$1.9)	(\$2.2)	(\$2.3)	(\$8.6)	(\$11.4)	(\$12.5)
<i>Operating Margin</i>	0%	0%	0%	0%	0%	0%	0%	0%
Interest Income	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Other Income	(\$0.0)	\$0.0	(\$0.0)	\$0.0	\$0.0	(\$0.0)	\$0.0	\$0.0
Pre-Tax Income	(\$14.1)	(\$2.2)	(\$1.9)	(\$2.2)	(\$2.3)	(\$8.6)	(\$11.4)	(\$12.5)
Provision for Income Tax	(\$1.6)	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<i>Tax Rate</i>	11.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income	(\$12.5)	(\$2.2)	(\$1.9)	(\$2.2)	(\$2.3)	(\$8.6)	(\$11.4)	(\$12.5)
			\$0.0					
Reported EPS	(\$5.52)	(\$0.90)	(\$0.46)	(\$0.51)	(\$0.09)	(\$1.96)	(\$0.44)	(\$0.48)
<i>YOY Growth</i>								
Basic Shares Outstanding	2.26	2.49	4.10	4.30	25.80	9.17	25.90	26.00

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

HISTORICAL STOCK PRICE

RXi Pharmaceuticals Corp. – Share Price Chart



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