

Action Summary – 6 January 2021

Analyst Theodore R. O'Neill

- Company announced it had enrolled and treated its first sentinel Phase 2, Part 1 patient with COVID-19. While the company has plenty of clinical experience with the drug in cancer patients, it is going slow with the first three being patients with mild/moderate inflammation and the first three with severe. These six are the "sentinel" patients.
- This is another milestone in the Phase 2, multi-center, double blind, randomized, placebo-control study to evaluate the safety and efficacy of OT-101 in combination with standard of care (SOC) on two patient cohorts:
 - 1) mild or moderate disease, and;
 - 2) severe disease requiring mechanical ventilation or intubation
- The primary efficacy endpoint is the proportion of subjects with clinical improvement score (measured by an 8-point World Health Organization COVID-19 Clinical Improvement Ordinal Scale) as assessed by the Odds Ratio (OR) at Day 14. The trial is ongoing in Peru and Argentina. This trial was selected by IBM Watson Health for the use of IBM Clinical Development Solution at no cost to the company.
- While there is a vaccine, treatments are an essential backstop to manage COVID-19
- **No change to our estimates**
- **Attractive valuation. The shares appear to us inexpensive on an absolute and relative basis compared to peers.**

| | | | |
|----------------------------------|--------------------------|-----------------------------------|-----------------------|
| 1/5 Closing price: \$0.22 | Market cap: \$20 million | 2021 P/E: NMF | 22021 EV / Sales: 8.6 |
| Shares outstanding: 89.6 million | Insider ownership: 36% | 3-mo avg. trading volume: 107,649 | Dividend/Yield: NA/NA |

GAAP estimates (EPS in dollars – Revenue in thousands)

| Period | EPS | Revenue | Op Margin |
|--------|-----------------|-----------------|------------|
| 1Q20A | \$(0.05) | \$341 | NMF |
| 2Q20A | \$ 0.01 | \$1,400 | NMF |
| 3Q20A | \$(0.02) | \$0 | NMF |
| 4Q20E | <u>\$(0.02)</u> | <u>\$0</u> | <u>NMF</u> |
| FY20E | <u>\$(0.09)</u> | <u>\$1,741</u> | <u>NMF</u> |
| 1Q21E | \$(0.02) | \$0 | NMF |
| 2Q21E | \$(0.01) | \$500 | 1% |
| 3Q21E | \$(0.00) | \$1,000 | NMF |
| 4Q21E | <u>\$(0.00)</u> | <u>\$1,000</u> | <u>NMF</u> |
| FY21E | <u>\$(0.03)</u> | <u>\$2,500</u> | <u>NMF</u> |
| 1Q22E | \$0.00 | \$2,000 | (5)% |
| 2Q22E | \$0.00 | \$2,000 | (5)% |
| 3Q22E | \$0.02 | \$3,000 | 23% |
| 4Q22E | <u>\$0.02</u> | <u>\$4,000</u> | <u>38%</u> |
| FY22E | <u>\$0.04</u> | <u>\$11,000</u> | <u>18%</u> |

Note: Numbers may not add due to rounding. See our full model in the back of this report.

Cash balance (in thousands)

| | |
|---------|-----------|
| • 2020E | • \$167 |
| • 2021E | • \$485 |
| • 2022E | • \$6,100 |

Debt (in thousands)

| | |
|---------|-----------|
| • 2020E | • \$2,000 |
| • 2021E | • \$2,200 |
| • 2022E | • \$0 |

Adj. EBITDA (in thousands)

| | |
|---------|-------------|
| • 2020E | • (\$5,787) |
| • 2021E | • (\$975) |
| • 2022E | • \$6,175 |

Risks/Valuation

- Risks include: limited resources; highly regulated and competitive industry; commercialization of technology.
- Our \$3 target is derived using a discounted future earnings model

Company description: Mateon was created by the recent reverse merger with Oncotelic, Inc., which became a wholly owned subsidiary of Mateon, thereby creating an immuno-oncology company dedicated to the development of first in class RNA therapeutics as well as small molecule drugs against cancer and infectious diseases.

Figure 1 – Mateon Therapeutics, Inc. – One-year Trading snapshot



Source: Refinitiv

Valuation Methodology

We believe MATN is undervalued and we support that belief with two valuation techniques, both of which generate approximately the same figure: \$3.00. For the purposes of determining our price target we use a discounted future earnings model. For the purpose of confirming our price target we look at comparable company valuations:

- 1) The discounted value of all future earnings was used for our price target (see Figure 2)
- 2) Valuation relative to peers (see Figure 3)

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of \$3.00 is based on a discounted future earnings model (Figure 2). For the purposes of deriving an earnings-based price target, we assume the company incurs losses until 2022 and we take, what we think is a very conservative approach to earnings growth. The model sums up all earnings per share, discounted at 15% to arrive at a per share valuation. Note, this model understates future novel product developments, probably understates the tax benefits, but offsetting that, the earnings never have a down year. The implied share price is \$3.19 which we round down to \$3.00.

Figure 2 – Mateon Therapeutics, Inc. – Discounted Earnings Valuation

| Discounted Earnings: \$3.19 | | |
|------------------------------------|--------|----------------|
| Year | EPS | Discounted EPS |
| 2020 | (0.09) | (0.09) |
| 2021 | (0.03) | (0.03) |
| 2022 | 0.05 | 0.04 |
| 2023 | 0.20 | 0.13 |
| 2024 | 0.30 | 0.17 |
| 2025 | 0.35 | 0.17 |
| 2026 | 0.49 | 0.21 |
| 2027 | 0.74 | 0.28 |
| 2028 | 0.76 | 0.25 |
| 2029 | 0.76 | 0.22 |
| Terminal Value: | | 1.84 |

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

Here we are using multiples of book and multiple of sales because the company is not yet profitable. The shares sell at a significant discount to peers (Figure 3) ranging from a discount of 70% to 75%. If the shares were to trade to half our price target it would only reach the average multiple to book. At our price target the shares would trade at the high end of the range. Comparables can be found in Figure 4.

Figure 3 – Mateon Therapeutics, Inc. – Summary Discount to Peers

| | 2021 Sales Multiple | 2021 EV / Sales |
|--------------------------|---------------------|-----------------|
| Average | 31.67 | 28.85 |
| MATN | 7.83 | 8.58 |
| Discount to peers | 75% | 70% |

Source: Litchfield Hills Research LLC and Refinitiv Eikon

Guidance and Financial Forecasts

The company provides no guidance. Our financial forecast makes many assumptions in order to determine a valuation. We have tried to be as conservative as possible, but the nature of this particular business is that if it can get very profitable very quickly. If the products are accepted and priced as the company hopes, we believe our model may turn out to be conservative in terms of earnings growth

Company background

Mateon Therapeutics is a clinical stage biopharmaceutical company developing four investigational drugs for difficult to treat cancers, of which two are also being investigated to treat COVID-19 patients. In addition, it has the rights to produce and sell an artificial intelligence (AI) and vision technology system that can be used to meet multiple unmet needs within the pharma and medical device industries.

It is in Phase 2 clinical trials with its OT-101 COVID-19 treatment in Latin America with 72 patients and this trial was selected by IBM Watson Health for the use of IBM Clinical Development Solution at no cost to the company.

It is in Phase 4 clinical trial with its ARTIVeda™ COVID-19 treatment in India, Nigeria and Latin America. The global trial is expected to enroll 3,000 pts. It executed a contract with an Indian company for manufacturing, sales, and marketing of ARTIVeda™ in India. ARTIVeda™ will be launched in India against COVID-19 before year end.

It completed a reverse merger with Oncotelic, Inc. last year and has obtained shareholder approval to change its name to Oncotelic and its symbol on the exchange following regulatory bodies approval.

Current product portfolio:

- OT-101 for treatment of certain cancers, and the same drug for the treatment of COVID-19 as well as other pandemics
- Two other treatments for cancer: Oxi4503 and CA4P
- ARTI/Veda™/ArtiShield™ a therapeutic pharmaceutical, nutraceutical and herbal supplement for treatment against COVID-19
- An AI technology, it is calling EdgePoint, vision grid and platform that can be used to meet multiple unmet needs within the pharma, medical device and Telemed industries

Product Status:

OT-101

Actively moving OT-101 through clinical development against COVID-19. Phase 2 in Latin America with 72 patients, has regulatory approval in Argentina and Peru and is actively working on approval Brazil.

Figure 4 – Mateon Therapeutics, Inc. – Comp Table

| Ticker | Company Name | 1/5/21 Close | Market Cap \$MM | EV \$MM | 2021 Sales Multiple | 2021 EV / Sales |
|---------|------------------------------------|--------------|-----------------|---------|---------------------|-----------------|
| TEVA.TA | Teva Pharmaceutical Industries Ltd | \$10.11 | 11,075 | 35,868 | NMF | NMF |
| ARNA.O | Arena Pharmaceuticals Inc | \$75.33 | 4,381 | 3,260 | NMF | NMF |
| APLS.O | Apellis Pharmaceuticals Inc | \$54.59 | 4,134 | 3,760 | 60.61 | 40.12 |
| CYDY.PK | Cytodyn Inc | \$5.97 | 3,407 | 3,421 | | |
| NGM.O | NGM Biopharmaceuticals Inc | \$29.25 | 2,019 | 1,731 | 20.89 | 19.07 |
| SRRK.O | Scholar Rock Holding Corp | \$46.92 | 1,578 | 1,462 | 49.21 | 58.69 |
| PLRX.O | Pliant Therapeutics Inc | \$24.52 | 870 | 576 | NMF | 43.97 |
| ALBO.O | Albireo Pharma Inc | \$36.98 | 705 | 427 | 44.50 | 28.40 |
| RIGL.O | Rigel Pharmaceuticals Inc | \$3.47 | 586 | 533 | 5.86 | 5.57 |
| SPPI.O | Spectrum Pharmaceuticals Inc | \$3.46 | 505 | 307 | 8.96 | 6.14 |
| | AVERAGE | | | | 31.67 | 28.85 |
| MATN.PK | Mateon Therapeutics Inc | \$0.22 | 20 | 21 | 7.83 | 8.58 |
| | MATN Discount to Peers | | | | -75% | -70% |

NMF was used to exclude both the highest and lowest metrics from the average.

Source: Litchfield Hills Research LLC and Refinitiv Eikon

Figure 5 – Mateon Therapeutics, Inc. – Income Statement (\$'000)

| December ending year | 2019A | | | | 2019A Year | 2020E | | | | 2020E Year | 2021E | | | | 2021E Year | 2022E | | | |
|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|---------------|---------------|----------------|----------------|
| | Q1A | Q2A | Q3A | Q4A | | Q1A | Q2A | Q3A | Q4E | | Q1E | Q2E | Q3E | Q4E | | Q1E | Q2E | Q3E | Q4E |
| (\$'000) | | | | | | | | | | | | | | | | | | | |
| Total revenue | \$0 | \$0 | \$0 | \$0 | \$0 | \$341 | \$1,400 | \$0 | \$0 | \$1,741 | \$0 | \$500 | \$1,000 | \$1,000 | \$2,500 | \$2,000 | \$2,000 | \$3,000 | \$4,000 |
| Cost of Goods | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 350 | 500 | 500 | 1,350 | 400 | 400 | 600 | 800 |
| Gross Profit | 0 | 0 | 0 | 0 | 0 | 341 | 1,400 | 0 | 0 | 1,741 | 0 | 150 | 500 | 500 | 1,150 | 1,600 | 1,600 | 2,400 | 3,200 |
| SG&A | 405 | 364 | 344 | 260 | 1,372 | 312 | 482 | 936 | 1,000 | 2,730 | 1,000 | 1,000 | 1,000 | 1,000 | 4,000 | 1,000 | 1,000 | 1,000 | 1,000 |
| R&D | 571 | 797 | 587 | 983 | 2,939 | 2,678 | 904 | 680 | 700 | 4,962 | 700 | 700 | 700 | 700 | 2,800 | 700 | 700 | 700 | 700 |
| Total Operating Expenses | 976 | 1,161 | 931 | 1,243 | 4,311 | 2,990 | 1,386 | 1,616 | 1,700 | 7,692 | 1,700 | 1,700 | 1,700 | 1,700 | 6,800 | 1,700 | 1,700 | 1,700 | 1,700 |
| Operating Income | (976) | (1,161) | (931) | (1,243) | (4,311) | (2,649) | 14 | (1,616) | (1,700) | (5,951) | (1,700) | (1,550) | (1,200) | (1,200) | (5,650) | (100) | (100) | 700 | 1,500 |
| Total Other Items | 0 | (28) | (60) | (2,239) | (2,327) | (2,009) | 568 | (370) | (100) | (1,911) | 100 | 500 | 1,000 | 1,000 | 2,600 | 100 | 500 | 1,000 | 1,000 |
| Pre-Tax Income | (976) | (1,189) | (991) | (3,482) | (6,638) | (4,658) | 582 | (1,987) | (1,800) | (7,862) | (1,600) | (1,050) | (200) | (200) | (3,050) | 0 | 400 | 1,700 | 2,500 |
| Taxes (benefit) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Tax Rate | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Income (loss) | (976) | (1,189) | (991) | (3,482) | (6,638) | (4,658) | 582 | (1,987) | (1,800) | (7,862) | (1,600) | (1,050) | (200) | (200) | (3,050) | \$0 | \$400 | \$1,700 | \$2,500 |
| EPS, as reported | (\$0.14) | (\$0.02) | (\$0.01) | (\$0.04) | (\$0.11) | (\$0.05) | \$0.01 | (\$0.02) | (\$0.02) | (\$0.09) | (\$0.02) | (\$0.01) | (\$0.00) | (\$0.00) | (\$0.03) | \$0.00 | \$0.00 | \$0.02 | \$0.03 |
| Diluted Shares Outstanding | 6,926 | 65,384 | 74,527 | 80,000 | 59,958 | 84,917 | 94,737 | 88,965 | 89,000 | 89,405 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 90,000 | 93,000 | 93,000 | 93,000 |

Source: Company reports and Litchfield Hills Research LLC

Figure 6 – Mateon Therapeutics, Inc. – Balance Sheet (\$'000)

| December ending year | FY2022E | FY2021E | FY2020E | FY2019 |
|-------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Balance sheet | | | | |
| Current Assets | | | | |
| Cash and S.T.I. | \$9,800 | \$485 | \$167 | \$82 |
| Accounts receivable | 500 | 200 | 20 | 150 |
| Inventories | 0 | 0 | 0 | 0 |
| Other assets | 500 | 100 | 88 | 41 |
| Total Current Assets | 10,800 | 785 | 275 | 273 |
| Intangibles | 800 | 840 | 886 | 925 |
| Goodwill | | | | |
| Other non-current assets | 2,000 | 1,500 | 1,190 | 1,425 |
| Total Assets | \$34,663 | \$24,188 | \$23,414 | \$23,685 |
| Current Liabilities | | | | |
| Accounts payable and accrued exp. | \$10,000 | \$5,000 | \$3,500 | \$2,657 |
| Contingent consideration | 5,200 | 4,825 | 4,625 | 3,586 |
| Other current liabilities | 2,000 | 1,500 | 1,200 | 541 |
| Total current liabilities | 17,200 | 11,325 | 9,325 | 6,783 |
| Conv. and Long Term Debt | 0 | 0 | 0 | 0 |
| Other non-current | 0 | 0 | 0 | 0 |
| Total Liabilities | 17,200 | 11,325 | 9,325 | 6,783 |
| Stockholders' Equity | | | | |
| Preferred stock | 3 | 3 | 3 | 3 |
| Common stock | 900 | 900 | 896 | 841 |
| Additional paid-in-capital | 35,000 | 35,000 | 32,200 | 28,186 |
| Retained earnings | (18,440) | (23,040) | (19,990) | (12,127) |
| Cum. trans. adj. and treasury stock | 0 | 0 | 980 | 0 |
| Total stockholders' equity | 17,463 | 12,863 | 14,089 | 16,902 |
| Total Liabilities and equity | \$34,663 | \$24,188 | \$23,414 | \$23,685 |

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – Mateon Therapeutics, Inc. – Cash Flow (\$'000)

| | <u>2022E</u> | <u>2021E</u> | <u>2020E</u> | <u>2019A</u> |
|-----------------------------------|-------------------|-----------------|----------------|----------------|
| Net Income | \$4,600.00 | (\$3,050.0) | (\$7,862.4) | (\$6,638.0) |
| Accounts receivable | (300.00) | (180.25) | 130.00 | (149.75) |
| Inventories | 0.00 | 0.00 | 0.00 | 0.00 |
| Other assets | (400.00) | (11.99) | (46.72) | (41.28) |
| Intangibles | 40.00 | 46.05 | 38.53 | 51.42 |
| Goodwill | 0.00 | (0.54) | 0.00 | (21,062.46) |
| Other non-current | (500.00) | (309.90) | 234.66 | 344.55 |
| Accounts payable and accrued exp. | 5,000.00 | 1,500.00 | 843.34 | 2,656.67 |
| Contingent consideration | 375.00 | 0.00 | 0.00 | 2,625.00 |
| Convertible debt | 0.00 | 200.00 | 1,039.08 | 960.92 |
| Other current liabilities | 500.00 | 300.00 | 659.48 | 257.49 |
| Conv. and Long Term Debt | 0.00 | 0.00 | 0.00 | 0.00 |
| Other non-current | 0.00 | 0.00 | 0.00 | 0.00 |
| Preferred stock | 0.00 | 0.02 | 0.00 | 2.78 |
| Common stock | 0.00 | 3.98 | 55.32 | 772.26 |
| Additional paid-in-capital | 0.00 | 2,800.00 | 4,014.40 | 20,299.00 |
| Non-controlling interest | 0.00 | (979.54) | 979.54 | 0.00 |
| Other | | | | 0.88 |
| Total Cash Flow | <u>\$9,315.00</u> | <u>\$317.81</u> | <u>\$85.22</u> | <u>\$79.47</u> |

Source: Company reports and Litchfield Hills Research LLC

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