

Action Summary – 16 April 2024

Analyst Theodore R. O'Neill – Update post release of audited FY23 results - Reiterate our Buy rating and CAD\$4 PT.

- **Exceeding expectations.** The company exceeded 4Q23 EPS expectations by \$0.01.
- **Closing in on milestones since the beginning of the year.**
 - **Raising additional cash.** Since January 1, it has added ~CAD\$6MM.
 - **Expanded its clinical footprint.** Leasing and fitting out additional laboratory space.
 - **Launches licensing efforts for the ExoTherapy platform.** It is beginning efforts to license its ExoTherapy platform for creating nano drugs by loading molecular cargo into exosomes.
 - **Broadening market reach in the U.S.** In March, it announced it filed for listing on the OTCQB market and has applied for DTC eligibility.
- **Increase in trading volume.** Trading volumes have risen to attractive levels. In 2023, average daily trading volumes averaged under 10,000 shares a day and on some days, the shares didn't trade at all. Trading volume is now occurring daily and averages above 50K shares per day. It recently joined the *Rising Stars* and *Jr. Healthcare* indices on the TMX.
- **Initiating 2025 Estimates.** We have no change to our 2024 estimates, but we are initiating 2025 estimates for a loss of \$0.09 on no revenue. Revenue may arise from several company initiatives related to its treatment for spinal cord injuries or licensing of the delivery technology or both and it is too early to tell which, but our model assumes we will see enough revenue in 2H26 to reach breakeven and that would be ~\$3-\$5MM per quarter.
- **Shares appear to be priced below absolute and comparative metrics.** Our CAD\$4.00 price target is based on discounted future earnings. Using the current average peer 2025 Market cap to sales of 6.5x and assuming \$10MM in 2026 revenue, the market cap would be CAD\$88MM.

4/15 closing price: CAD\$0.61	Market cap: CAD\$30 million	Multiple of book: NMF	EV/2025 Sales: NMF
Shares outstanding: 48 million	Insider ownership: 9%	Avg. trading volume: ~180,000	Dividend/Yield: NA/NA

GAAP estimates (EPS in dollars – Revenue in USD millions)

Period	EPS	Revenue	Op Margin
1Q23A	(\$0.02)	\$0.00	
2Q23A	(\$0.02)	\$0.00	
3Q23A	(\$0.03)	\$0.00	
4Q23A	<u>(\$0.02)</u>	<u>\$0.00</u>	
FY23A	<u>(\$0.08)</u>	<u>\$0.00</u>	<u>NMF</u>
1Q24E	(\$0.02)	\$0.00	
2Q24E	(\$0.02)	\$0.00	
3Q24E	(\$0.02)	\$0.00	
4Q24E	<u>(\$0.03)</u>	<u>\$0.00</u>	
FY24E	<u>(\$0.09)</u>	<u>\$0.00</u>	<u>NMF</u>
1Q25E	(\$0.02)	\$0.00	
2Q25E	(\$0.02)	\$0.00	
3Q25E	(\$0.02)	\$0.00	
4Q25E	<u>(\$0.03)</u>	<u>\$0.00</u>	
FY25E	<u>(\$0.09)</u>	<u>\$0.00</u>	<u>NMF</u>

Cash balance (in USD millions)

• 2021A	• \$2.23
• 2022A	• \$2.52
• 2023A	• \$1.77
• 2024E	• \$0.55

Debt (in USD millions)

• 2021A	• \$0.00
• 2022A	• \$0.00
• 2023A	• \$0.00
• 2024E	• \$0.00

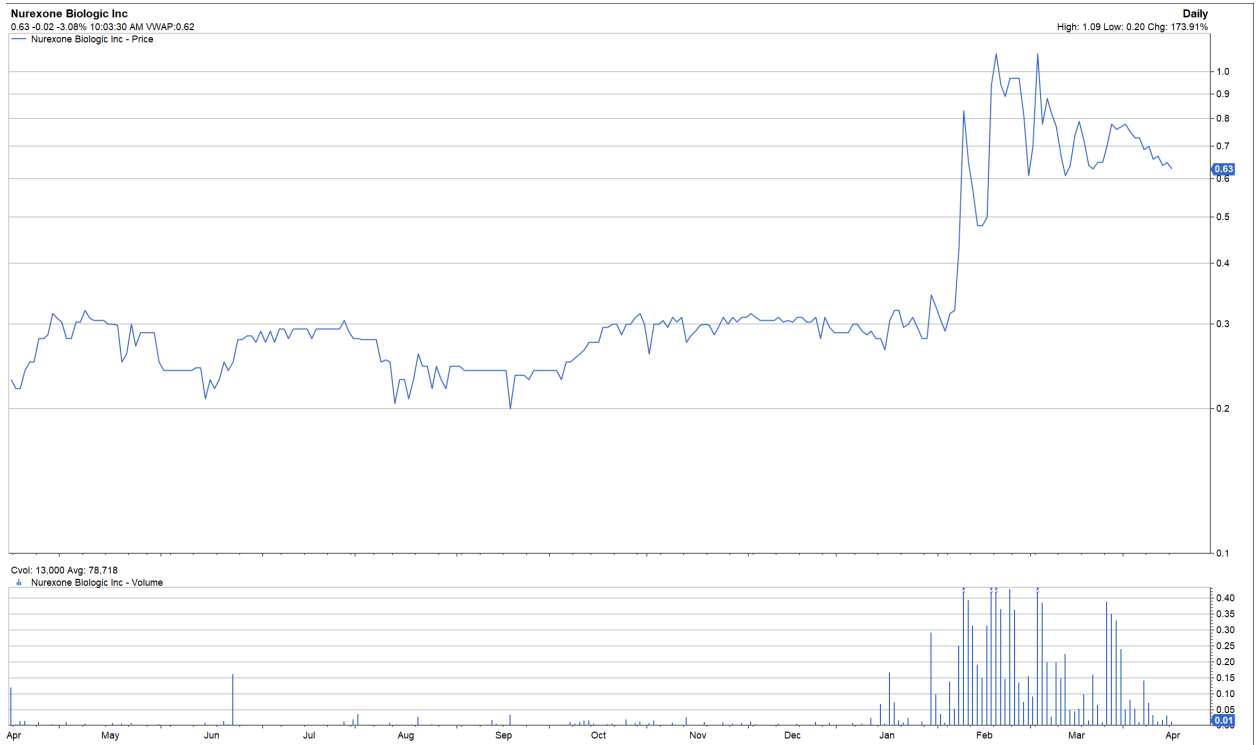
Note: Numbers may not add due to rounding or share count. See our full model at the back of this report.

Risks/Valuation

- Risks include Highly regulated business, commercial development and marketing.
- Our CAD\$4.00 target is derived using a discounted future earnings model.

Company description: NurExone Biologic Inc. is a TSX Venture Exchange-listed pharmaceutical company that is developing a platform for biologically guided ExoTherapy to be delivered non-invasively to patients with traumatic spinal cord injuries.

Figure 1 – NurExone Biologic Inc. - Trading snapshot (CAD\$)



Source: FactSet

Quarterly Results

Exceeding expectations. The company exceeded 4Q23 expectations by reporting an EPS loss of \$0.01 versus our loss estimate of \$0.02. There is no consensus. The \$0.01 favorable variance (see Figure 2) was due to lower expenses of both SG&A and R&D.

Figure 2 – NurExone Biologic Inc. – Quarterly Variance Analysis

	2023 Q4E	2023 Q4A	<u>Better/(worse) than forecast</u>
Income Statement			
Total Revenue	\$0.0	\$0.0	\$0.0
Total cost of revenue	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Gross Profit	0.0	0.0	0.0
Operating expenses:			
SG&A	450.0	308.0	142.0
R&D	<u>600.0</u>	<u>406.0</u>	<u>194.0</u>
Total Expenses	<u>1,050.0</u>	<u>714.0</u>	<u>336.0</u>
Earnings (loss) from Operations	<u>(1,050.0)</u>	<u>(714.0)</u>	336.0
Total Other income/(expense)	<u>0.0</u>	<u>(22.0)</u>	<u>(22.0)</u>
Earnings before taxes	<u>(1,050.0)</u>	<u>(736.0)</u>	314.0
Tax expense/(benefit)	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Net income	<u>(\$1,050.0)</u>	<u>(\$736.0)</u>	<u>\$314.0</u>
	<u>(\$0.02)</u>	<u>(\$0.01)</u>	\$0.01
Diluted common shares	48,000	49,615	(1,615)

Source: Company filings and Litchfield Hills Research LLC

Valuation Methodology

The value of NRX could come from multiple avenues. It could be acquired, form partnerships, license products or technology. We believe NRX is undervalued, and we support that belief with two valuation techniques: discounted future earnings and sales metrics compared to peers. To determine our price target, we use a discounted future earnings model. Depending on the regulatory approval process, the timing of the first revenues may be this year or next. The following valuation techniques are being used:

- 1) The discounted value of all future earnings, used for our price target (see Figure 3)
- 2) Valuation based on peer sales metrics (see Figure 4)

Discounted Future Earnings – Basis for Price Target

Our 12-month price target of CAD\$4.00 is based on a discounted earnings model, which is calculated in USD because that is how the company reports results and then converted to CAD\$. Figure 3 shows the implied value of all future earnings discounted at 12%. It is based on reaching breakeven in 2H26 and implies a stock value of \$2.51, which we round to \$3.00, which is ~CAD\$4.00 at the current exchange rate.

Figure 3 – NurExone Biologic Inc. – US\$ Discounted Future Earnings

Discounted Earnings:		\$2.51
Year	EPS	Discounted EPS
2024	(\$0.09)	(0.09)
2025	(\$0.09)	(0.08)
2026	(\$0.05)	(0.04)
2027	\$0.00	0.00
2028	\$0.10	0.06
2029	\$0.20	0.11
2030	\$0.28	0.14
2031	\$0.42	0.19
2032	\$0.44	0.18
2033	\$0.46	0.17
Terminal Value:		1.87

Source: Litchfield Hills Research LLC

Valuation Relative to Peers

To develop peer comparisons, we selected companies in the same general markets that also had or were developing a drug delivery platform with a market cap of <\$250MM, see Figure 5. We included companies engaged in exosome research/delivery platforms or other types of platforms. If we compare NRX to a simple average of its peers, the shares sell at a significant discount on the one measure we can use for comparison: Sales multiple. For this analysis, we take the current one-year out sales multiple (2025 peer average sales multiple of 6.5x) and apply it as if it were 2025 and look into 2026 when the company could reach breakeven. We assume the company will raise more capital and the share count will rise to 55MM. The implied share price is \$1.18 (CAD\$1.60), see Figure 3. This supports our view that the shares are undervalued. The companies we used in Figure 4 are in similar business lines, although none of them is a perfect match.

Figure 4 – NurExone Biologic Inc. – Peer Driven Valuation

Average Out-year 2025 Sales Multiple for Peers	6.5
NRX potential 2026 revenue	USD\$10MM
Implied Market Cap in 2025 at the Average out-year sales multiple	\$65MM
NRX 2024 Estimated share count	55MM
Implied Share Price	USD\$1.18/CAD\$1.60

Source: Litchfield Hills Research LLC and Refinitiv Eikon

Figure 5 – NurExone Biologic Inc. – Comp Table

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2025 Consensus Multiples		
					Market Cap / Sales	EV /Sales	Price to Book
XOMA-US	XOMA Corporation	\$23.34	271	239	13.51	11.92	2.40
ZVRA-US	Zevra Therapeutics, Inc.	\$5.94	246	126	2.50	1.24	1.85
VXRT-US	Vaxart, Inc.	\$1.29	224	174	9.93	7.70	1.52
CAPR-US	Capricor Therapeutics, Inc.	\$6.77	213	147	2.82	1.96	6.74
COYA-US	Coya Therapeutics, Inc.	\$9.65	140	65	14.40	6.80	
ANVS-US	Annovis Bio Inc	\$12.03	132	102			3.87
RVPH-US	Reviva Pharmaceuticals Holdings, Inc.	\$3.90	109	89			7.06
ASMB-US	Assembly Biosciences, Inc.	\$13.38	73	13			0.77
MOC-PL	Molecure SA	\$4.33	73	53	17.96	10.70	1.58
INNO-CA	InnoCan Pharma Corporation	\$0.24	63	57			6.20
MTNB-US	Matinas BioPharma Holdings, Inc.	\$0.29	63	53			2.44
SABS-US	SAB Biotherapeutics, Inc.	\$4.22	39	24			0.96
MSCL-CA	Satellos Bioscience Inc	\$0.35	35	0			1.19
IIQ-AU	Inoviq Ltd	\$0.38	35	31	8.77	7.93	3.99
MARI-AT	Marinomed Biotech AG	\$22.72	35	32	1.09	1.68	
BCLI-US	Brainstorm Cell Therapeutics Inc.	\$0.60	29	28			
RLF-CH	RELIEF THERAPEUTICS Holding AG	\$1.47	21	7			0.91
SNTI-US	Senti Biosciences, Inc.	\$0.39	18	19			0.45
VBIV-US	VBI Vaccines, Inc.	\$0.58	14	30	0.46	0.78	1.57
OCEL-US	Zeo ScientifiX Inc.	\$2.00	12	12			
EVOK-US	Evoke Pharma, Inc.	\$0.59	5	2	0.24	0.11	
CING-US	Cingulate, Inc.	\$1.09	4	3	0.24	0.13	2.91
BWV-US	Onconetix Inc	\$0.16	4	8			0.75
ALBT-US	Avalon GloboCare Corp.	\$0.30	3	31			23.99
NBSE-US	NeuBase Therapeutics Inc	\$0.43	2	(6)			
Average					6.54	4.63	3.74

Source: Litchfield Hills Research LLC and FactSet

Guidance and Financial Forecasts

The company provides no guidance. The company is pursuing a multi-prong strategy for growth including potential acquisition, commercialization, partnerships, and joint ventures. Our forecasts assume there is no revenue before 2026. In our 2023 research reports, we had assumed a 2024 capital raise of ~CAD\$6MM, which the company appears to have completed in 1Q24. The company continues to meet its milestones, which we highlight in Figure 6.

Figure 6 – NurExone Biologic Inc. – Future Research and Development Milestones

Future research and development milestones	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25
Establish in-house laboratories and offices ⁽¹⁾	●					
In-vivo experiments for IND submission ⁽²⁾	»»»»	»»»»	»»»»	●		
IND submission to the FDA ⁽³⁾	»»»»	»»»»	»»»»	»»»»	»»»»	●
IND clearance, clinical trial design & manufacturing scale-up ⁽⁴⁾	»»»»	»»»»	»»»»	»»»»	»»»»	●
First-in-human clinical trial I/IIa ⁽⁵⁾	»»»»	»»»»	»»»»	»»»»	»»»»	●

- √ for completion of research and development milestones
 ● for target of research and development milestones

Source: Company MD&A for the year ended Dec 2023, dated April 2, 2024

- 1) Establish in-house laboratories and offices to enhance our research and development capabilities by entering into a lease and construction agreements, as set out under the heading “Subsequent Events” below.
- 2) Conduct animal experiments as part of the preclinical testing phase for the submission of an IND application to the FDA to evaluate the safety and efficacy of the ExoPTEN drug before it can proceed to clinical trials involving human subjects.
- 3) Compile and submit the IND application, which includes manufacturing information and Chemistry, Manufacturing and Controls (“CMC”) data, preclinical data, and clinical trial plans.
- 4) The Company shall prepare for the initiation of Phase I clinical trials as follows:
 - a. IND Clearance: After regulatory review, obtain clearance from regulatory agencies to proceed with clinical trials.
 - b. Clinical Trial Design: Develop the protocol for Phase I/IIA clinical trials, including dosing, patient eligibility criteria, and endpoints.
 - c. Manufacturing Scale-Up: Optimize the manufacturing process to produce clinical-grade materials.
- 5) Preparation for the initiation of Phase I/IIa clinical trials, as follows:
 - a. Clinical Site Selection: Identify and prepare clinical trial sites and investigators.
 - b. Patient Recruitment: Begin recruiting patients for Phase I/IIa clinical trials.
 - c. Initiate Phase I clinical trials with a small group of healthy volunteers or patients to assess safety and dosing.
 - d. Timeline may vary based on development outcomes and unforeseen circumstances.

Figure 7 – NurExone Biologic Inc. – Income Statement (US\$000)

December ending year	2021A	2022A	2023A				2023A	2024E				2024E	2025E				2025E
	Year	Year	Q1A	Q2A	Q3A	Q4A	Year	Q1E	Q2E	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year
Total revenue	\$0.00	\$0.00	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Cost of Goods	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Gross Profit	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
R&D	573	1,391	374	457	402	308	1,541	450	500	600	800	2,350	450	500	600	800	2,350
SG&A	<u>1,140</u>	<u>4,150</u>	<u>345</u>	<u>603</u>	<u>762</u>	<u>406</u>	<u>2,116</u>	<u>600</u>	<u>600</u>	<u>600</u>	<u>600</u>	<u>2,400</u>	<u>600</u>	<u>600</u>	<u>600</u>	<u>600</u>	<u>2,400</u>
Total Operating Expenses	1,713	5,541	719	1,060	1,164	714	3,657	1,050	1,100	1,200	1,400	4,750	1,050	1,100	1,200	1,400	4,750
Operating Income	(1,713)	(5,541)	(719)	(1,060)	(1,164)	(714)	(3,657)	(1,050)	(1,100)	(1,200)	(1,400)	(4,750)	(1,050)	(1,100)	(1,200)	(1,400)	(4,750)
Total Other Items	<u>66</u>	<u>(2,628)</u>	<u>14</u>	<u>20</u>	<u>6</u>	<u>(22)</u>	<u>18</u>	<u>15</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>13</u>	<u>15</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>13</u>
Pre-Tax Income	(1,647)	(8,169)	(705)	(1,040)	(1,158)	(736)	(3,639)	(1,035)	(1,101)	(1,201)	(1,401)	(4,737)	(1,035)	(1,101)	(1,201)	(1,401)	(4,737)
Taxes (benefit)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income (loss)	(\$1,647)	(\$8,169)	(\$705)	(\$1,040)	(\$1,158)	(\$736)	(\$3,639)	(\$1,035)	(\$1,101)	(\$1,201)	(\$1,401)	(\$4,737)	(\$1,035)	(\$1,101)	(\$1,201)	(\$1,401)	(\$4,737)
EPS	(\$0.10)	(\$0.22)	(\$0.02)	(\$0.02)	(\$0.03)	(\$0.01)	(\$0.08)	(\$0.02)	(\$0.02)	(\$0.02)	(\$0.03)	(\$0.09)	(\$0.02)	(\$0.02)	(\$0.02)	(\$0.03)	(\$0.09)
Diluted Shares Outstanding	16,452	37,734	42,855	42,885	43,534	49,615	44,722	48,000	50,000	50,000	52,000	50,000	52,000	53,000	54,000	55,000	53,500

Source: Company reports and Litchfield Hills Research LLC

Figure 8 – NurExone Biologic Inc. – Balance Sheet (US\$000)

December ending year	FY2025E	FY2024E	FY2023A	FY2022A	FY2021A
Balance sheet					
Current Assets					
Cash and S.T.I.	\$820	\$556	\$1,770	\$2,517	\$2,233
Accounts receivable	300	300	212	175	603
Inventories	0	0	0	0	0
Other assets	0	0	0	0	0
Total Current Assets	1,120	856	1,982	2,692	2,836
Net PP&E	125	125	158	51	0
Other non-current assets	50	50	30	51	0
Total Assets	\$1,295	\$1,031	\$2,170	\$2,794	\$2,836
Current Liabilities					
Accounts payable	\$350	\$350	\$317	\$298	\$259
Accrued expenses	375	375	299	305	87
Other current liabilities	0	0	1,292	0	1,285
Total current liabilities	725	725	1,908	603	1,631
Conv. and Long Term Debt	0	0	0	0	0
Other non-current	100	100	73	95	28
Total Liabilities	825	825	1,981	698	1,659
Stockholders' Equity					
Preferred stock	0	0	0	0	0
Common stock	0	0	0	0	0
Additional paid-in-capital	24,000	19,000	14,246	12,514	3,426
Retained earnings	(23,530)	(18,794)	(14,057)	(10,418)	(2,249)
Cum. trans. adj. and treasury stock	0	0	0	0	0
Total stockholders' equity	470	206	189	2,096	1,177
Total Liabilities and equity	\$1,295	\$1,031	\$2,170	\$2,794	\$2,836

Source: Company reports and Litchfield Hills Research LLC

Figure 9 – NurExone Biologic Inc. – Cash Flow (US\$000)

	2025E	2024E	2023E	2022A	2021A
Net Income	(\$4,737)	(\$4,737)	(\$3,639)	(\$8,169)	(\$1,647)
Accounts receivable	0	(88)	(37)	428	(603)
Inventories	0	0	0	0	0
Other assets	0	0	0	0	735
PP&E	0	33	(107)	(51)	0
Other non-current	0	(20)	21	(51)	356
Accounts payable	0	33	19	39	(390)
Accrued expenses	0	76	(6)	218	(770)
Other current liabilities	0	(1,292)	1,292	(1,285)	1,285
Conv. and Long Term Debt	0	0	0	0	0
Other non-current	0	27	(22)	67	28
Preferred stock	0	0	0	0	0
Common stock	0	0	0	0	(14)
Additional paid-in-capital	5,000	4,754	1,732	9,088	(32,065)
Stock subscription receivable	0	0	0	0	0
Other					
Total Cash Flow	\$263	(\$1,214)	(\$747)	\$284	(\$33,086)

Source: Litchfield Hills Research LLC

Disclosures:

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NurExone Biologic Inc.

NRX-CAD\$4.00 PT

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