Biotechnology

PBMD - NASDAQ July 19, 2017

Intraday Price 07/19/2017	**$1.79**
Rating:	Buy
12-Month Target Price:	$7.00
52-Week Range:	$1.70 - $3.26
Market Cap (M):	42
Shares O/S (M):	23.4
Float:	0.0%
Avg. Daily Volume (000):	54
Debt (M):	$0.0
Dividend:	$0.00
Dividend Yield:	0.00%
Risk Profile:	Speculative
Fiscal Year End:	June

Total Expenses ('000)

	2017E	2018E	2019E
H1	3,716A	5,934	6,231
H2	5,000	6,428	6,750
FY	8,716	12,362	12,981
Prior	9,216	12,887	13,532

Prima Biomed Ltd.

Buy

Coming to the Next Checkpoint: LAG-3 and Prima has the Right Partner in Novartis

Summary

- **Prima updated the company's financial position, reporting $10M in cash which combined with $5M in capital raised in July and a $1M milestone payment from partner Novartis (July 18, 2017) extends the runway into late 2018. More data is expected for in-house programs for IMP321 in 2H17, but right now we want shift some of the focus to the LAG-3 program with Novartis (NVS - $85.15 - NR).**
- **LAG-3 is likely the next blockbuster checkpoint target and it will be combined with PD1s and PD-L1s, in our view. Bristol is leading the space and has prioritized its LAG-3 program with 9 ongoing trials in combination with Opdivo. Prima's partner Novartis is evaluating IMP701 + its own PD1 in over 15 solid tumor types. The enrollment target for its P1 study increased from N=240 to N=416 and we should start to see data soon. Others including Merck, Sanofi/ Regeneron, Boehringer Ingelheim, and Incyte (partner with Agenus [AGEN - $4.75 - Buy]) have also entered the space.**
- **Conclusion: How big is the LAG-3 space? Like the PD1 and PD-L1 space, there is room for multiple players, in our view. However, checkpoints are a big pharma game which for a microcap company require a partner. As such we see Prima ideally positioned with Novartis to capture value in what we see as the next evolution of checkpoint inhibitors.**

Details

Large indications and the right partners. Novartis has licensed IMP701 for development as a combination therapy with PD1 inhibitors in solid tumors. We believe that the ongoing phase I study will expand in its indications, taking a more aggressive timeline to approval. GlaxoSmithKline (GSK - $42.65 - NR) is evaluating IMP731 in a phase I study in psoriasis (data are expected in 2017). Prima will receive single-digit royalties from each partnership. The lead in-house program, IMP321, an antigen-presenting cell (APC) activator that ramps up T-cell production following chemotherapy, already demonstrated POC in breast cancer and is currently in a phase IIb registration study. IMP321 could launch in 2020. A phase I study of an IMP321 combination with Keytruda in melanoma patients is also positive so far, more data in 2017.

IMP321 is Prima Biomed's lead LAG-3 candidate, and it's in development as an immune adjuvant or immune stimulator. IMP321 is a soluble dimeric recombinant form of LAG-3Ig, a fusion protein used to increase the immune response to tumors by stimulating dendritic cells through high affinity binding to MHC class II molecules on the dendritic cell surface. LAG-3 is one of two proteins shown to be able to properly condition dendritic cells (and monocytes) to undergo maturation and step up the stimulation of antigen targeting T-cells (the other is CD40 ligand). What's important to note is that both LAG-3 and CD40 can do this without inflammation. IMP321 was developed by Dr. Frédéric Triebel in the late 1990s as a dendritic-cell activator. IMP321 has been shown to be highly efficacious as a vaccine adjuvant to inhibit tumor growth in a number of models of both cancer and infectious disease. The protein is safe and non-immunogenic, and has already shown efficacy in humans. When used at low doses, it can be used as a T-cell adjuvant for cancer vaccines. At higher doses, IMP321 can be combined with cancer chemotherapy to ramp up the immune response by driving dendritic cells and monocytes to increase tumor antigen presentation.

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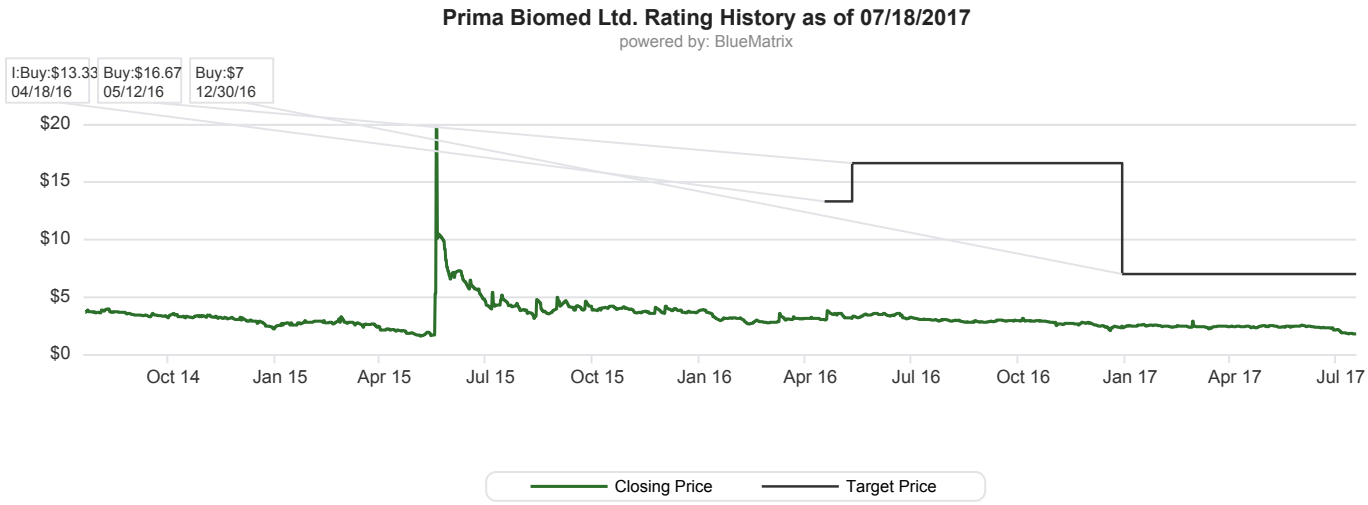
Income Statement ($'000, USD)			July-Dec 16												
Prima Biomed LTD, I: YE June 30	**2015A**	**2016A**	**1H-2017A**	**2H-2017E**	**2017E**	**1H-2018E**	**2H-2018E**	**2018E**	**2019E**	**2020E**	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**
Revenue (000's)															
Total Revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
License revenue		133													
Miscellaneous income	130	534	173		173										
Grant Income	899	674	1,051		1,051										
Milestones and Royalties:															
IMP321 (Breast cancer)										11,767	28,427	46,857	68,917	87,027	96,059
IMP321 (Melanoma)										-	-	20,951	25,901	33,353	45,814
IMP731 (Psoriasis)				1,000	1,000	4,800	5,200	10,000	10,000	10,000	10,000	10,000	22,518	35,902	47,798
IMP701 (Solid tumors)				5,000	5,000	4,800	5,200	10,000	10,000	10,000	10,000	10,000	29,155	37,545	46,415
CVac									5,000	5,000	5,000	8,000	10,000	12,000	15,000
Total Revenues	1,028	1,341	1,224	6,000	7,224	9,600	10,400	20,000	25,000	36,767	53,427	95,808	156,491	205,827	251,085
Expenses															
Cost Of Goods Sold	-														
COGS % Sales															
Research & Development	6,893	5,365	2,086	2,500	4,586	2,311	2,504	4,815	5,056	5,309	5,574	5,853	6,146	6,453	6,776
R&D % Rev's															
General & Administrative Expense	4,407	5,307	1,630	2,500	4,130	3,623	3,924	7,547	7,924	8,321	8,737	9,173	9,632	10,114	10,619
SG&A %															
Depreciation and amortization	1,033	1,515													
Total expenses	**12,333**	**12,187**	**3,716**	**5,000**	**8,716**	**5,934**	**6,428**	**12,362**	**12,981**	**13,630**	**14,311**	**15,027**	**15,778**	**16,567**	**17,395**
Oper. Inc. (Loss)	(11,305)	(10,845)	(2,492)	1,000	(1,492)	3,666	3,972	7,638	12,019	23,137	39,116	80,781	140,713	189,260	233,690
Other income and expenses															
Interest income	169	125	49		49										
Loss on foreign exhange	(414)	(429)	(156)		(156)										
Finance cost	(14,140)	(6)													
Changes in fair value of comparability milestone	619	(389)													
Net Change in fair value of financial liability		(462)	(288)		(288)										
Loss on disposal of assets	(4)														
Exchange differences on the tranlation of foreign operations	(43)														
Total other income	(13,767)	(1,161)	(395)	-	(395)	-	-	-	-	-	-	-	-	-	-
Pre-tax income	**(25,071)**	**(12,006)**	**(2,887)**	**1,000**	**(1,887)**	**3,666**	**3,972**	**7,638**	**12,019**	**23,137**	**39,116**	**80,781**	**140,713**	**189,260**	**233,690**
Pretax Margin															
Taxes (or benefits)			425		425							4,039	14,071	28,389	42,064
Tax Rate												5%	10%	15%	18%
GAAP Net Income (loss)	**(25,071)**	**(12,006)**	**(2,462)**	**1,000**	**(1,462)**	**3,666**	**3,972**	**7,638**	**12,019**	**23,137**	**39,116**	**76,742**	**126,642**	**160,871**	**191,626**
Non GAAP Net Income (loss)	**(25,071)**	**(48,082)**	**(2,462)**	**1,000**	**(1,462)**	**3,666**	**3,972**	**7,638**	**12,019**	**23,137**	**39,116**	**84,820**	**154,784**	**217,649**	**275,755**
GAAP -EPS	**(0.41)**	**(0.17)**	**(0.12)**	**0.04**	**(0.07)**	**0.16**	**0.15**	**0.31**	**0.46**	**0.82**	**1.30**	**2.55**	**4.21**	**5.33**	**6.34**
Wgtd Avg Shrs (Bas) - '000s	60,530	68,665	20,637	23,289	21,963	23,312	26,336	24,824	26,375	28,178	29,986	30,046	30,106	30,166	30,227
Wgtd Avg Shrs (Dil) - '000s	60,530	68,665	20,637	23,289	21,963	23,312	26,336	24,824	26,375	28,178	29,986	30,046	30,106	30,166	30,227

Source: Company reports and Maxim

DISCLOSURES



Maxim Group LLC Ratings Distribution			As of: 07/18/17
		% of Coverage Universe with Rating	% of Rating for which Firm Provided Banking Services in the Last 12 months
Buy	Fundamental metrics and/or identifiable catalysts exist such that we expect the stock to outperform its relevant index over the next 12 months.	**78%**	**34%**
Hold	Fundamental metrics are currently at, or approaching, industry averages. Therefore, we expect this stock to neither significantly outperform nor underperform its relevant index over the next 12 months.	**19%**	**18%**
Sell	Fundamental metrics and/or identifiable catalysts exist such that we expect the stock to underperform its relevant index over the next 12 months.	**3%**	**17%**
	**See valuation section for company specific relevant indices*		

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Maxim Group managed/co-managed/acted as placement agent for an offering of the securities for Prima Biomed Ltd. in the past 12 months.

Maxim Group received compensation for investment banking services from Prima Biomed Ltd. in the past 12 months.

Maxim Group expects to receive or intends to seek compensation for investment banking services from Prima Biomed Ltd. in the next 3 months.

PBMD: For Prima Biomed, we use the BTK (Biotechnology Index) as the relevant index.

Valuation Methods

PBMD: Our therapeutic model assumes a royalty structure for each LAG-3 product, initially with IMP701 and IMP321 in 2020 and followed by IMP731 in 2023. Our models assume risk adjustments for each product based on the stage(s) of development. Our therapeutic models assume a risk adjustment. We then apply a 30% discount to our free-cash-flow, discounted EPS, and sum-of-the-parts models, which are equally weighted to derive a price target.

Price Target and Investment Risks

PBMD: Aside from general market and other economic risks, risks particular to our price target and rating for Prima Biomed include: (1) Development—To date, LAG-3 checkpoint modulators have not been approved; (2) Regulatory—The company's ongoing and future studies may not be sufficient to gain approval; (3) Commercial—The company lacks commercial infrastructure to support a launch if approved; (4) Financial—The company is not yet profitable and may need to raise additional capital to fund operations.

RISK RATINGS

Risk ratings take into account both fundamental criteria and price volatility.

Speculative – Fundamental Criteria: This is a risk rating assigned to early-stage companies with minimal to no revenues, lack of earnings, balance sheet concerns, and/or a short operating history. Accordingly, fundamental risk is expected to be significantly above the industry. Price Volatility: Because of the inherent fundamental criteria of the companies falling within this risk category, the price volatility is expected to be significant with the possibility that the investment could eventually be worthless. Speculative stocks may not be suitable for a significant class of individual investors.

High – Fundamental Criteria: This is a risk rating assigned to companies having below-average revenue and earnings visibility, negative cash flow, and low market cap or public float. Accordingly, fundamental risk is expected to be above the industry. Price Volatility: The price volatility of companies falling within this category is expected to be above the industry. High-risk stocks may not be suitable for a significant class of individual investors.

Medium – Fundamental Criteria: This is a risk rating assigned to companies that may have average revenue and earnings visibility, positive cash flow, and is fairly liquid. Accordingly, both price volatility and fundamental risk are expected to approximate the industry average.

Low – Fundamental Criteria: This is a risk rating assigned to companies that may have above-average revenue and earnings visibility, positive cash flow, and is fairly liquid. Accordingly, both price volatility and fundamental risk are expected to be below the industry.

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