

## Strong momentum can close significant valuation gap.

### Key Statistics:

|                  |                  |
|------------------|------------------|
| Code             | PLI              |
| Listing          | TSX              |
| Sector           | Pharma & Biotech |
| Market Cap       | C\$531m          |
| Share in issue   | 718.12m          |
| Current Price*   | C\$0.74          |
| 12 mnth High/Low | C\$1.80/C\$0.45  |

\*Priced at close on 18 July 2018

### Stock Performance



Source: Yahoo Finance

### Financials

| C\$m     | y/e | FY 15A | FY 16A | FY 17A | FY 18E |
|----------|-----|--------|--------|--------|--------|
| Revenues | Dec | 24.5   | 16.4   | 39.1   | 32.0   |
| NPAT     |     | -56.8  | -110.7 | -120.0 | -115.8 |

Source: Company Results and Hybridan LLP Forecasts

### Company Description

Prometic Life Sciences Inc. is a long-established biopharmaceutical Company with globally recognised expertise in bioseparations, plasma-derived therapeutics and small-molecule drug development. Prometic offers its state of the art technologies for large-scale purification of biologics, drug development, proteomics, and the elimination of pathogens to a growing base of industry leaders and uses its own affinity technology that provides for highly efficient extraction and purification of therapeutic proteins from human plasma to develop best-in-class therapeutics and orphan drugs. ProMetic is also active in developing novel small-molecule therapeutic products targeting unmet medical needs in the field of fibrosis, cancer, and autoimmune diseases/inflammation. Headquartered in Laval (Canada), ProMetic has R&D facilities in the UK, the U.S. and Canada, manufacturing facilities in the UK and business development activities in the U.S., Europe, and Asia.

### HYBRIDAN LLP

20 Ironmonger Lane, London, EC2V 8EP

Website: [www.hybridan.com](http://www.hybridan.com)

 @HybridanLLP

Derren Nathan

Tel: 020 3764 2344

Email: [derren.nathan@hybridan.com](mailto:derren.nathan@hybridan.com)

Recent months have been somewhat volatile for shareholders in the corporation focussed on the Biology of healing. The shares slid sharply following the final results in March 2018. Since the AGM in May 2018, the shares have bottomed out at 0.49c some 36% lower, and 75% beneath the 12-month high. However, in July so far, the shares are up 42% despite a relatively quiet few weeks for news flow.

Whilst the clinical filings for Ryplazim™ are undisputed in terms of safety and efficacy, and the likely delay in approval a relatively short time period in the context of the drug development cycle, the delay in revenues, and likely Paediatric Review Voucher has raised some question marks about the longer-term funding position of the research programs for Prometic's potential blockbusters. Last month's Corporate Action Plan Update outlined a cash runway of \$82.1m which we believe broadly covers Prometic's expenditure plans until the end of 2018.

We believe that the uncertainty over whether the next source of investment capital comes from capital markets, debt refinancing or business development, has clearly had some impact over driving the valuation to current levels, which we argue is well below the fundamental value created in the assets to date. **Prometic is highly focused on monetising its life changing drug candidates and we believe that the ingredients are in place to generate significant cash from selective partnering deals.**

In the most recent investor conference call, newly appointed Business Development Officer Bruce Wendel updated on the partnering strategy. He reported that **the anti-fibrotic franchise was experiencing strong partnering momentum and that a competitive process had been opened up.** He mentioned that PBI 4050 was unique in that it had not failed in any of its clinical or pre-clinical objectives so far.

Whilst interest had already been growing in IPF, **the surprise decision by the FDA to approve an all-comers trial design for the forthcoming Phase 3 pivotal study has accelerated this interest.** Other factors to note are the recent publication of the mechanism of action (MoA), and data on Alström which has shown reversal of cardiac and liver fibrosis (liver measured by 5 different methods).

The addressable patient population for Alström is very small. Only c. 1200 affected individuals have been identified worldwide. However, **Alström may prove to be of vital strategic importance to Prometic on several levels.** As a case study for PBI-4050's ability to treat fibrosis, we can not imagine a more challenging model with multiple organs being susceptible to the formation of scar tissue. The phase 2 open label trial has already shown some excellent and sustained results, and Prometic is due to meet with the FDA in August in order to delineate a regulatory pathway.

Given the ultra-orphan nature of the condition **it is possible that Alström will prove to be an easier first route to market than IPF.** We would not expect the pivotal phase 3 trial in IPF to complete before 2021, although it the the six-month interim data is likely to be published earlier. Given the patient population and complete absence of current treatments for Alström, **we believe that the time and cost to approve Alström in a clinician's setting is likely to be considerably less than for IPF, particularly if the FDA grants Fast Track designation.**

PBI 4050 and its analogues (e.g. PBI 4547 earmarked for a NASH trial in H2 2018) have the potential to treat numerous fibrotic and metabolic conditions beyond Prometic's current clinical priorities. **An initial authorisation, or**

simplified path to doing so, will send a very strong message to potential partners, increasing their confidence in the drug's ability to safely improve patient outcomes, and raising the prospect of a relatively quick and low-cost clinical hurdle route to revenues for certain conditions.

Ryplazim™ remains a potential medium-term source of cash flow, although a resubmission of the BLA is unlikely before 2019. However **there remains every chance of the issue of a valuable Priority Review Voucher (PRV) by the end of next year, which could potentially be monetised as shown by the recent sale of a PRV by Spark Therapeutics for \$110m.**

We believe that the current share price bears little reflection of the intrinsic value of Prometic's lead programs. **The argument continues to strengthen, that plasminogen's potential use beyond congenital deficiency could be very large indeed, with early work now showing potential for treatments in thrombolytic conditions such as Stroke and Deep Vein Thrombosis and paediatric conditions such as Venous Thromboembolism. This could mean a patient population of some 1 million, in addition to that already identified for other acute plasminogen deficiencies such as Adult Respiratory Distress Syndrome.**

**We continue to see the shares as oversold and believe that the positive progress being made in the clinic does not reflect the gap between the current share price and our risked indicative valuation of C\$5.3 per share. Whilst concerns remain about Prometic's ability to fund its program into 2019, particularly with a Phase III trial around the corner, this may explain why strong clinical data alone is not sufficient to drive sustainable rises in the share price. However, three years ago the shares were circa treble the price at which they are quoted today. Back then PBI 4050 had only just been**

initiated. We believe it's fair to say the promise shown by this drug has exceeded all expectations. The same can be said for Ryplazim™.

FibroGen (NASDAQ:FGEN) and Galapagos (EPA:GLPG) are capitalised at \$5.27bn and \$4.46bn respectively. In IPF where they both have competing programmes with Prometic, we believe that **PBI 4050's efficacy and safety shown so far combined with simple once a day dosing and lack of long term usage concerns compare very favourably. All three companies have relatively deep pipelines, but what Prometic is currently missing is balance sheet strength and an industry partner with deep pockets.**

**Should the team succeed in addressing this, we would expect to see rapid appreciation in the share price. Prometic's current backers, we believe, have the resources to further fund the Company,** and we do not believe they will allow the prioritised clinical programs to get stuck due to lack of funding. However, in terms of driving market sentiment, **we would prefer to see a successful execution of Prometic's smart partnering strategy to generate meaningful upfront payments** for selective indications and territories.

**We believe Prometic's management team has held on to the rump of the potential upside of its lead candidates in the knowledge that clinical activity to date has generated some highly valuable programs.** There is no shortage of larger peers who need to replenish their pipelines with late stage assets, and **in the case of IPF,** where the providers of the existing unsatisfactory standard of care and new entrants are all jostling for position, **we would expect interest in PBI 4050 to be generating significant competitive tension.**

**Profit and Loss**

| C\$ m                                       | <b>2015A</b> | <b>2016A</b>  | <b>2017A</b>  | <b>2018E</b>  |
|---|--------------|---------------|---------------|---------------|
| <i>Year-end Dec</i>                         |              |               |               |               |
| <b>Revenues</b>                             | <b>24.5</b>  | <b>16.4</b>   | <b>39.1</b>   | <b>32.0</b>   |
| Cost of goods                               | -8.2         | 6.8           | -10.1         | -14.4         |
| Gross profit                                | 16.3         | 9.6           | 29.0          | 17.6          |
| <b>Gross margin</b>                         | <b>66%</b>   | <b>59%</b>    | <b>74%</b>    | <b>55%</b>    |
| R&D   | -50.3        | -88.1         | -100.4        | -100.4        |
| Admin & marketing expenses                  | -16.6        | -29.3         | -31.4         | -30.0         |
| Foreign exchange gains                      | 2.1          | -0.4          | 0.7           |               |
| Loss on elimination of debt                 | -9.6         | -4.2          | 0.0           |               |
| Gain on recognition of loan receivable      | 0.0          | 0.0           | 0.0           |               |
| Gain on revaluation of equity investment    | 0.0          | 0.0           | 0.0           |               |
| Bad debt expense                            | 0.0          | 0.0           | -20.5         | 0.0           |
| Purchase gain on business combination       | 0.4          | 0.0           | 0.0           |               |
| Finance costs                               | -2.9         | -4.5          | -8.0          | -10.0         |
| Share of associate                          | 0.0          | 0.0           | 0.0           |               |
| Gain on litigation settlement               | 0.0          | 0.0           | 0.0           |               |
| Fair value variation /extinction of warrant | -1.5         | 0.0           | -4.2          |               |
| Tax   | 5.1          | 6.2           | 14.8          | 7.0           |
| <b>Net profit</b>                           | <b>-56.8</b> | <b>-110.7</b> | <b>-120.0</b> | <b>-115.8</b> |
| Other comprehensive profit                  | 0.0          | 0.0           | 0.0           | 0.0           |
| Net comprehensive profit                    | -51.0        | -100.8        | -109.7        | -105.8        |
| Minority interest                           | -5.8         | -9.9          | -10.4         | -10.0         |
| <b>Net attributable profits</b>             | <b>-56.9</b> | <b>-110.7</b> | <b>-120.0</b> | <b>-115.8</b> |
| Avg. number of shares (m)                   | 582.0        | 598.4         | 684.0         | 715.0         |
| <b>EPS (C\$)</b>                            | <b>-0.10</b> | <b>-0.17</b>  | <b>-0.16</b>  | <b>-0.15</b>  |

*Source: Annual Reports ProMetic Life Sciences Inc. and Hybridan LLP estimates*

## Cash Flow Statement

| C\$ m<br>Year-end Dec   | 2015A        | 2016A         | 2017A         | 2018E         |
|---|--------------|---------------|---------------|---------------|
| <b>Net profit (loss)</b>  | <b>-56.8</b> | <b>-110.7</b> | <b>-120.0</b> | <b>-115.8</b> |
| <i>Adjustments to reconcile net loss to cash flows used in operating activities</i> |              |               |               |               |
| Charges paid with shares  | 0.0          | 0.0           | 0.0           | 0.0           |
| Long-term debt provided by shareholders paid in shares and warrants                 | 0.0          | 0.0           | 0.0           | 0.0           |
| Finance costs   | 0.7          | 5.3           | 8.8           | 10.0          |
| Fair value variation /extinction of warrant liability                               | 1.5          | 0.0           | 0.0           | 0.0           |
| Disposition of a net investment in associated company                               | 0.0          | 0.0           | 0.0           | 0.0           |
| Loss on disposals and impairment of assets  | 0.0          | 0.0           | 0.0           | 0.0           |
| Licensing revenues  | 0.0          | 0.0           | 0.0           | 0.0           |
| Carrying value of capital and intangibles assets disposed                           | 0.1          | 0.2           | 0.6           | 0.0           |
| Recovery of deferred tax liability  | -5.1         | -6.2          | -11.6         |               |
| Change in lease inducements   | 0.5          | 0.9           | 2.4           | 0.0           |
| Gain on revaluation of equity investment  | 0.0          | 0.0           | 0.0           | 0.0           |
| Changes in other non-current liabilities  | 0.0          | 0.3           |               |               |
| Purchase gain on business combination   | -0.4         | 0.0           | 0.0           | 0.0           |
| Loss on extinguishment of debt  | 9.6          | 4.2           | 4.2           | 0.0           |
| Stock-based compensation  | 3.0          | 6.9           | 8.7           | 6.0           |
| Advance on revenues from a supply agreement   | 0.0          | 0.0           | 0.0           | 0.0           |
| Unrealised foreign exchange loss  | 0.0          | 0.0           | 0.0           | 0.0           |
| Amortisation of capital assets  | 1.8          | 2.5           | 3.6           | 2.4           |
| Amortisation of license and patents   | 0.6          | 0.7           | 0.9           | 0.9           |
|   | <b>-44.7</b> | <b>-95.8</b>  | <b>-102.5</b> | <b>-96.4</b>  |
| Change in non cash working capital items  | -1.0         | -1.9          | -20.1         | -10.0         |
| <b>Cash flows used in operating activities</b>                                      | <b>-45.7</b> | <b>-97.7</b>  | <b>-122.6</b> | <b>-106.4</b> |
| Proceeds from share issuance  | 57.6         | 60.1          | 53.1          | 0.0           |
| SRAM JV   |              |               |               |               |
| Debt and warrant issuance   | 0.0          | 30.0          | 50.7          | 15.0          |
| Exercise of future investment rights  |              |               | 21.1          |               |
| Exercise of options   | 0.5          | 0.6           | 0.5           | 0.0           |
| Exercise of warrants  | 0.7          | 0.0           | 0.0           | 0.0           |
| Shares issued to non-controlling interests  | 0.0          | 0.0           | 0.0           | 0.0           |
| Share issue expenses  | -4.0         | -3.89         | -4.3          | 0.0           |
| Interest paid   | 0.0          | 0.0           | 0.0           | 0.0           |
| Reimbursement of share purchase loan to an officer                                  |              | 0.05          |               |               |
| Repayment of bank loan  | 0.0          | 0.0           | 0.0           | 0.0           |
| Repayment of other loan   | 0.0          | 0.0           | -3.6          | 0.0           |
| Repayment of promissory notes from shareholders                                     | 0.0          | 0.0           | 0.0           | 0.0           |
| Repayment of a long-term debt provided by a shareholder                             | 0.0          | 0.0           | 0.0           | 0.0           |
| Repayment of a repayable government grant and finance leases                        | 0.0          | 0.0           | 0.0           | 0.0           |
| Repayment of the advance on revenues from a supply agreement                        | 0.0          | 0.0           | 0.0           | 0.0           |
| <b>Cash flows from financing activities</b>   | <b>54.8</b>  | <b>86.94</b>  | <b>117.5</b>  | <b>15.0</b>   |
| Disposal of an investment   | 0.0          | 0.000         | 0.0           | 0.0           |
| Marketable securities   |              | 11.65         | 11.1          |               |
| Business Combination  | -0.8         | 13.50         |               |               |
| Interest received   | 0.3          | 0.37          | 0.2           | 0.0           |
| Additions to non-current assets   |              | -0.08         | -0.1          |               |
| Additions to capital assets   | -5.7         | -14.09        | -7.7          | -10.0         |
| Additions to licenses and patents   | -1.2         | -1.45         | -2.4          | -2.4          |
| <b>Cash flows used in investing activities</b>                                      | <b>-7.4</b>  | <b>9.90</b>   | <b>1.1</b>    | <b>-12.4</b>  |
| Net change in cash during the period  | 1.7          | -0.9          | -4.0          | -103.8        |
| Cash acquired with acquisition  |              | 0.0           |               |               |
| Net effect of currency exchange rate on cash  | 0.5          | -0.6          | -0.6          | 0.0           |
| Cash, beginning of the period   | 27.1         | 29.3          | 27.8          | 23.17         |
| <b>Cash, end of the period</b>  | <b>29.3</b>  | <b>27.8</b>   | <b>23.2</b>   | <b>-80.7</b>  |

Source: Annual Reports ProMetic Life Sciences Inc. and Hybridan LLP estimates

## Balance Sheet

| C\$ m  | 2015A        | 2016A        | 2017A        | 2018E        |
|--|--------------|--------------|--------------|--------------|
| <i>Year-end Dec</i>                              |              |              |              |              |
| <b>Current assets</b>                            |              |              |              |              |
| Cash and equivalents                             | 29.3         | 27.8         | 23.2         | -80.7        |
| Share subscription receivable                    | 0.0          |              | 0.0          | 0.0          |
| Marketable securities and short-term investments |              | 11.1         | 0.0          | 0.0          |
| Trade and other receivables                      | 8.4          | 8.8          | 6.8          | 11.8         |
| Inventories                                      | 5.5          | 13.7         | 36.0         | 26.0         |
| Tax Receivable                                   | 0.0          |              | 4.1          | 4.1          |
| Prepaid expenses                                 | 1.9          | 2.9          | 2.1          | 2.1          |
|  | <b>45.1</b>  | <b>64.3</b>  | <b>72.3</b>  | <b>-36.6</b> |
| <b>Non-current assets</b>                        |              |              |              |              |
| Other Long Term Assets                           | 1.4          | 3.2          | 8.7          | 8.7          |
| Deferred tax assets                              | 0.3          | 0.1          | 0.9          | 0.9          |
| Non-current income tax receivable                | 1.0          | 1.0          | 0.1          | 0.1          |
| Other investment                                 | 0.0          |              | 0.0          | 0.0          |
| Capital assets                                   | 19.0         | 41.2         | 45.3         | 52.9         |
| Licenses and patents                             | 148.3        | 155.5        | 156.6        | 158.1        |
|  | <b>170.1</b> | <b>201.0</b> | <b>211.6</b> | <b>220.6</b> |
| <b>Total Assets</b>                              | <b>215.2</b> | <b>265.3</b> | <b>283.9</b> | <b>184.0</b> |
| <b>Current Liabilities</b>                       |              |              |              |              |
| Bank loan  | 0.0          | 0.0          | 0.0          | 0.0          |
| Other loan                                       | 0.0          | 0.0          | 0.0          | 0.0          |
| Warrant liability                                | 0.0          | 0.0          | 0.0          | 0.0          |
| Trade and other payables                         | 11.0         | 23.8         | 30.0         | 15.0         |
| Income tax payable                               | 0.0          | 0.0          | 0.0          | 0.0          |
| Promissory notes from shareholders               | 0.0          | 0.0          | 0.0          | 0.0          |
| Deferred revenues                                | 2.4          | 2.1          | 0.8          | 0.8          |
| Repayable grants and finance lease               | 0.0          | 0.0          | 0.0          | 0.0          |
| Current portion of long-term debt                | 0.0          | 5.8          | 3.3          | 3.3          |
| Current portion of advance on revenues           | 0.4          | 0.3          | 1.9          | 1.9          |
|  | <b>13.8</b>  | <b>32.1</b>  | <b>36.0</b>  | <b>21.0</b>  |
| <b>Non-current Liabilities</b>                   |              |              |              |              |
| Lease inducement                                 | 0.5          | 1.0          | 2.1          | 2.1          |
| Deferred tax liabilities                         | 31.5         | 25.3         | 15.3         | 15.3         |
| Debt provided by shareholders                    | 0.0          | 0.0          | 0.0          | 0.0          |
| Other non-current liabilities                    |              | 3.4          | 3.3          | 3.3          |
| Long term debt                                   | 22.0         | 42.3         | 83.7         | 108.7        |
| Advance on revenues                              | 2.2          | 1.8          | 0.0          | 0.0          |
|  | <b>56.1</b>  | <b>73.9</b>  | <b>104.4</b> | <b>129.4</b> |
| <b>Total Liabilities</b>                         | <b>70.0</b>  | <b>106.0</b> | <b>140.4</b> | <b>150.4</b> |
| <b>Net Assets</b>                                | <b>145.3</b> | <b>159.3</b> | <b>143.4</b> | <b>33.6</b>  |
| <b>Shareholders' Equity</b>                      |              |              |              |              |
| Called up share capital                          | 365.5        | 480.2        | 575.2        | 581.2        |
| Share subscription receivable                    |              | 0.0          | 0.0          | 0.0          |
| Contributed surplus                              | 7.4          | 12.9         | 16.2         | 16.2         |
| Future investment rights                         | 53.7         | 64.2         | 73.9         | 73.9         |
| Accumulated other comprehensive income           | 0.3          | -2.0         | -1.6         | -1.6         |
| Deficit  | -313.5       | -423.0       | -541.7       | -647.5       |
| Equity attributable to owners of parent          | 113.4        | 132.4        | 122.0        | 22.2         |
| Non-controlling interests                        | 31.9         | 27.0         | 21.4         | 11.4         |
| <b>Total Equity</b>                              | <b>145.3</b> | <b>159.3</b> | <b>143.4</b> | <b>33.6</b>  |

Source: Annual Reports ProMetic Life Sciences Inc. and Hybridan LLP estimates

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**Hybridan LLP**  
20 Ironmonger Lane, London, EC2V 8EP  
T +44 (0) 20 3764 2341  
F +44 (0) 20 7600 1586  
[www.hybridan.com](http://www.hybridan.com)



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