EQUITY RESEARCH

RBC Capital Markets

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November 14, 2017

ProMetic Life Sciences Inc.

Q3/17 - no surprises as plasminogen launch and PBI-4050 Ph. II/III approach

Our view: PLI reported Q3/17 results last night. We note once again that we place a significant emphasis on clinical progress over financial results, the latter of which were in line during the quarter. We believe 2018 catalysts, most notably plasminogen launch and PBI-4050 Ph. II/III trial initiation, will remain in focus moving forward.

Key points:

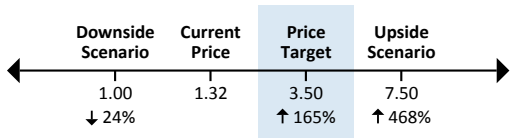
- **Q3/17 revenues of $24.0MM vs. our $4.3MM forecast.** ProMetic reported Q3/17 revenues of $24.0MM, above our $4.3MM forecast and consensus of $4.6MM (FactSet, 2 estimates). We note the variance was largely due to milestone payments (SRAM) that the company recognized on its P&L. Our model took into account the proceeds, but assumed the payments would be recognized by year-end as a balance sheet item. As such, the cash impacts are as expected.
- **Operating expenses in line with our expectations.** PLI's operating expenses totaled $30.9MM (R&D $23.2MM, SG&A $7.7MM), essentially in line with our $30.6MM forecast (R&D $22.9MM, SG&A $7.8MM). We also note that operating cash burn of $32.6MM was just above our $31.0MM estimate.
- **Plasminogen launch preparations.** Once again, the company reiterated that it is ready for a plasminogen launch next year (PDUFA April 14/18). Management also noted that it started sourcing potential buyers for a PRV, which the company will be eligible for upon approval of plasminogen. We view PLI's commitment to sell a PRV positively and anticipate that a sale will likely occur within 4-6 months of issuance. In addition, the company noted that it would provide clinical progress/ timeline updates on IVIG in the near-term.
- **PBI-4050.** The company expects to begin enrolling patients for the the pivotal Ph. II/III trial (PBI-4050 for IPF) in late Q1/early Q2 with interim data expected in Q3/2019. Management also indicated that it continues to seek out a potential licensing/partnership deal for the molecule. We anticipate a licensing deal for PBI-4050 will occur in 2018.
- **Forecast revisions.** The company provided updated guidance during the conference call with product and service revenues expected to be $7.0MM and >$20.5MM in Q4/17 and 2018, respectively. Following the release of Q3/17 results and the updated guidance, we now estimate 2017 revenues of $38.4MM (prev. $17.2MM), largely due to the $19.7MM in milestone revenue recorded in Q3/17. Our 2018 revenue estimate increases to $58.1MM from $56.3MM previously.
- **Valuation - price target unchanged at $3.50.**

Outperform
Speculative Risk
TSX: PLI; CAD 1.32

Price Target CAD 3.50

WHAT'S INSIDE	
☐ Rating/Risk Change	☐ Price Target Change
☐ In-Depth Report	☑ Est. Change
☐ Preview	☑ News Analysis

Scenario Analysis*



*Implied Total Returns

Key Statistics

Shares O/S (MM):	552.3	Market Cap (MM):	572
Dividend:	0.00	Yield:	0.0%
		Avg. Daily Volume:	1,779,807

RBC Estimates

FY Dec	2015A	2016A	2017E	2018E
Revenue	24.5	16.4	38.4	58.1
Prev.			17.2	56.3
EPS, Ops Diluted	(0.09)	(0.18)	(0.16)	(0.12)
Prev.			(0.18)	(0.13)
P/E	NM	NM	NM	NM
EBITDA, Adj	(45.1)	(97.5)	(88.8)	(75.4)
Prev.			(113.2)	(79.3)

Revenue	**Q1**	**Q2**	**Q3**	**Q4**
2016	5.2A	3.3A	3.7A	4.1A
2017	4.9A	3.6A	24.0A	5.9E
Prev.			4.3E	4.5E
EPS, Ops Diluted				
2016	(0.03)A	(0.04)A	(0.05)A	(0.07)A
2017	(0.04)A	(0.05)A	(0.03)A	(0.05)E
Prev.			(0.04)E	

All values in CAD unless otherwise noted.

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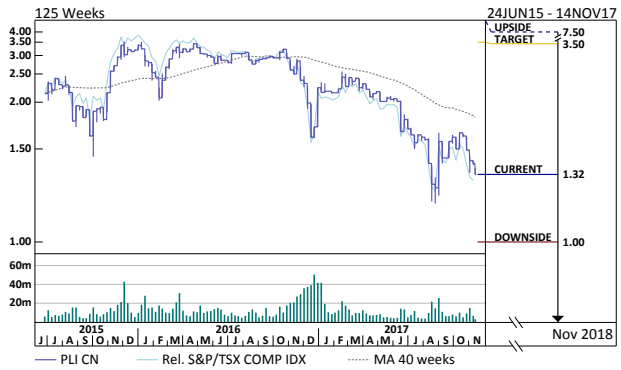
For Required Non-U.S. Analyst and Conflicts Disclosures, see page 10.

Target/Upside/Downside Scenarios

Exhibit 1: ProMetic Life Sciences Inc.



Source: Bloomberg and RBC Capital Markets estimates for Upside/Downside/Target

Target price/base case

Our base case target is $3.50 and values the bioseparation and plasma-derived proteins business at $2.42/sh. Our base case value for the PBI-4050 opportunity equates to $1.07/sh for total ProMetic valuation of $3.49/sh and a price target of $3.50/sh. This scenario assumes PBI-4050 is approved for IPF in 2020 and penetration levels of ~5% for IVIG and ~7% for A1AT by 2025.

Upside scenario

Our upside scenario is $7.50 and values the bioseparation and plasma-derived proteins business at $5.25/sh. Our upside case value for the PBI-4050 opportunity equates to $2.24/sh. This scenario assumes that PBI-4050 is approved for two or more lung indications and that penetration levels by 2025 for IVIG and A1AT are improved as production capacity increases.

Downside scenario

Our downside scenario is $1.00 and values the bioseparation and plasma-derived proteins businesses at $1.00/sh. Our downside case value for the PBI-4050 opportunity equates to $0.00/sh. This scenario assumes that PBI-4050 fails, a higher-than-anticipated cash burn, and that penetration levels for IVIG and A1AT are reduced by 2025 due to clinical and manufacturing delays.

Investment summary

- **ProMetic is targeting high-value/margin orphan markets instead of competing on volume like major players in the market.** While ProMetic initially intends to go head to head for a few products (such as IVIG and alpha 1-antitrypsin) with higher revenues (~$300–400) per liter, its greatest yield advantage is in rare proteins that command a higher price (~$1,500+) per liter of plasma. The incumbents are largely limited in their ability to extract these proteins. As such, the average revenues they can generate from one liter of plasma is ~$400 vs. ProMetic, which believes it can exceed $2,000 as more orphan drug proteins are commercialized.
- **Disruptive technology has significant yield and cost advantages over established process/peers.** PLI's purification process is a well-established technology that has been used by clients to isolate proteins for well over two decades. Because pharmaceutical companies were focused on the development of other technologies, ProMetic is now able to bridge the gap and either license its technology to pharmaceutical companies or use its superior technology to isolate therapeutic proteins that pharmaceutical companies do not have the means to isolate. ProMetic's technology provides higher yields than traditional technology and is able to separate proteins that are typically hard to isolate.
- **Attractive from a risk profile perspective given that bioseparation technology is utilized in 12 approved products.** ProMetic's separation technology is utilized in 12 FDA/EMEA/etc. approved products and several others are under development. This base business should continue to steadily improve as additional R&D efforts are initiated and product approvals occur.
- **Significant number of potential catalysts in the next 12–36 months.** ProMetic's diverse business divisions have all seen significant clinical developments in the past 12 months, but we anticipate the bulk of catalytic events to occur over the next 12–36 months as both the plasma-derived therapeutics division and the small molecule therapeutics divisions of ProMetic could see substantial value-driving events such as positive clinical trial data, BLA/NDA filings, and FDA/EU approvals. All of these events would typically have an impact on stock price.
- **Significant potential with PBI-4050; small molecule therapeutic.** ProMetic's lead small molecule candidate, PBI-4050, has seen extremely positive results in gold-standard animal models to date and has had strong results in Phase I trials. PBI-4050 is intended to treat fibrosis and other diseases involving an inflammatory response. Currently, PBI-4050 is being investigated in idiopathic pulmonary fibrosis (IPF), chronic kidney disease (CKD) caused by Type 2 diabetes, and cystic fibrosis (CF) related diabetes (CFRD).

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Plasminogen launch and PBI-4050 IPF trial initiation remain the focus

Q3/17 revenues of $24.0MM vs. our $4.3MM forecast; clinical progress remains the narrative. ProMetic reported Q3/17 revenues of $24.0MM, above our $4.3MM forecast and consensus of $4.6MM (FactSet, 2 estimates). We note that the quarter benefited from $19.7MM in milestone payments, and adjusting for these payments puts the results in line with our and consensus estimates. Our model did account for SRAM cash proceeds (over Q3/Q4), but assumed the proceeds flow through as balance sheet items. As such, the primary deviation to our estimates was the tax and foreign exchange impacts from the transaction. Revenues from the sales of goods were $3.9MM, while rental revenues contributed $0.4MM. We continue to place a significant emphasis on clinical progress over PLI's financial results now that the company has secured additional financing.

Operating expenses consistent with our forecasts. ProMetic's operating expenses totaled $30.9MM (R&D $23.2MM, SG&A $7.7MM), essentially in line with our $30.6MM estimate (R&D $22.9MM, SG&A $7.8MM). We note that operating cash burn of $32.6MM was slightly above our $31.0MM forecast. Cash used in operations YTD has increased $31.2MM relative to the third quarter of 2016, which is not surprising given the change in non-cash working capital items (ex. Inventory build ahead of plasminogen launch, receivables outstanding from SRAM).

Exhibit 2: Q3/17 Income Statement Results and Variance to RBCCM Estimates

C$ '000, except per share data FY end Dec 31.	RBCCM Q3/17E	Q3/17A	Variance	Q3/16A	% Chg YoY
Revenues					
Total Revenues	**$4,279**	**$24,034**	**$19,755**	**$3,737**	543.1%
Expenses					
COGS	$1,712	$3,780	$2,068	$1,852	104.1%
Gross Profit	**$2,567**	**$20,254**	$17,687	**$1,885**	974.5%
R&D - recharged	$0	$0	$0	$0	n.m.
R&D - non-rechargeable	$22,869	$23,201	$332	$23,576	-1.6%
Admin & marketing	$7,770	$7,653	($117)	$6,475	18.2%
FX	$0	$0	$0	($55)	-100.0%
Impairment/gain	$0	$0	$0	$0	n.m.
Share profit/loss associated company	$0	$0	$0	$0	n.m.
FV of warrant liability	$0	$0	$0	$0	41.8%
Other	$0	$6,458	$6,458	$1,179	447.8%
Total Expenses	**$36,119**	**$41,092**	**$4,973**	**$33,027**	24.4%
Operating Profit (Loss)	**($31,840)**	**($17,058)**	**$14,782**	**($29,290)**	-41.8%
Adj. EBITDA	**($30,049)**	**($6,660)**	**$23,389**	**($26,980)**	-75.3%
Other Income					
Interest income	$104	$0	($104)	$0	n.m.
Interest -LT debt	($1,383)	$0	$1,383	$0	n.m.
Interest - bank	$0	$0	$0	$0	n.m.
Other	$0	$0	$0	$0	n.m.
Profit (loss) before income taxes	($30,561)	($17,058)	$13,503	($29,290)	-41.8%
Future income tax recovery	$0	($692)	($692)	$1,312	-152.7%
Current taxes	$0	$0	$0	($1)	-100.0%
Net profit (loss)	**($30,561)**	**($17,750)**	**$12,811**	**($27,979)**	-36.6%
Basic profit (loss) per share	($0.04)	($0.03)	$0.02	($0.05)	-45.6%
EPS (fully diluted)	($0.04)	($0.03)	$0.02	($0.05)	-45.8%
Weighted avg. shares outstanding	705,842	704,446	(1,396)	604,389	16.6%
FD common shares	713,050	707,378	(5,672)	604,389	17.0%
CFPS (fd)	($0.04)	($0.05)	($0.01)	($0.04)	25.0%

Source: Company reports and RBC Capital Markets estimates

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Catalyst updates

As we have highlighted in previous notes, we believe investors would view PLI delivering on the catalysts below over the next 6-18 months positively. We have updated our timelines for these forecasts following PLI's third quarter results.

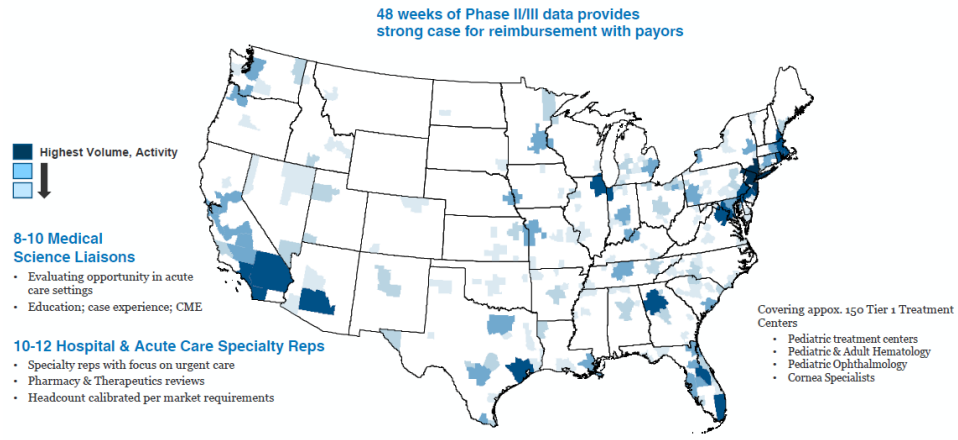
✓ (partially)	**1. Additional non-dilutive financing:** In addition to the $23MM Shenzhen partnership, we now forecast a licensing deal for PBI-4050 in 2018 (previous estimates called for a deal before year-end). However, we believe both a regional licensing deal (Asia) and a manufacturing licensing deal for a plasma-derived therapeutic could also be considered by PLI. We also view the company's $100MM credit line positively given PLI's burn rate, but again note the warrants issued in the transaction present a source of dilution for existing shareholders. In addition, the credit line has a two-year term and would need to be repaid with another form of financing.
✓ (Sep 25th)	**2. H2/17: Controlled trial for PBI-4050 in IPF:** Following successful data from an open-label Ph. II trial, we believe investors need to see a larger, placebo-controlled Ph.II/III trial in IPF, particularly given management's continued comparison of PBI-4050 with existing best-in-class commercial therapies. Management announced that it received FDA clearance for the trial late in the quarter, and expects patient enrollment to begin in late Q1/18 to early Q2/18.
✓ (Oct 13th)	**3. Plasminogen PDUFA:** The company announced that the FDA accepted its plasminogen BLA and set a PDUFA date of April 14, 2018. Management indicated that if approval were to occur in Q1, it would be ready to launch under this scenario.
	4. Q2/18: Plasminogen launch: We now anticipate a plasminogen launch in Q2/18 (prev. Q1/18), consistent with the plasminogen PDUFA date.
	5. H1/18: Publication of PBI-4050 MOA: Although management has guided to this for some time, we believe that publication of the mechanism of action (MOA) of PBI-4050 in a prominent journal would be viewed positively by investors, and would help strengthen credibility of the management team. While we acknowledge that a publication could occur before year-end, we believe it is more likely to come in the first half of 2018, well behind previous expectations. We note this is not unusual given the information and confirmation of data likely required by the publications, especially if they are well respected.

Ryplazim (plasminogen) launch preparations continue

We now believe that plasminogen launch will occur in Q2/18 (prev. Q1/18), noting a PDUFA date of April 14/2018. Plasminogen has previously been granted Fast Track, Orphan Drug and Rare Pediatric Disease designations. Thus, if approved, plasminogen will be eligible for a rare pediatric disease priority review voucher (PRV). The company's new credit line provides it flexibility and could alleviate some pressure it faces to complete a PRV sale. The vouchers have historically sold within 4-6 months of issuance, and we expect a similar timeline for PLI. Management indicated on the conference call that it will engage a third party to source buyers for a potential PRV. Regardless of the value the company may receive (PRVs have sold for US$67-$350MM), we expect at least some of the proceeds from the sale to be used for debt repayment.

Management reiterated its positive tone regarding payor discussions pertaining to the 48-week plasminogen data, which we believe will help form a strong case for reimbursement. As we have previously highlighted, and as was reiterated by the company on the conference call, Ryplazim appears ready to roll out immediately upon approval. Exhibit 3 summarizes the results from the company's assessment of the plasminogen target population by geography.

Exhibit 3: Plasminogen target population locations



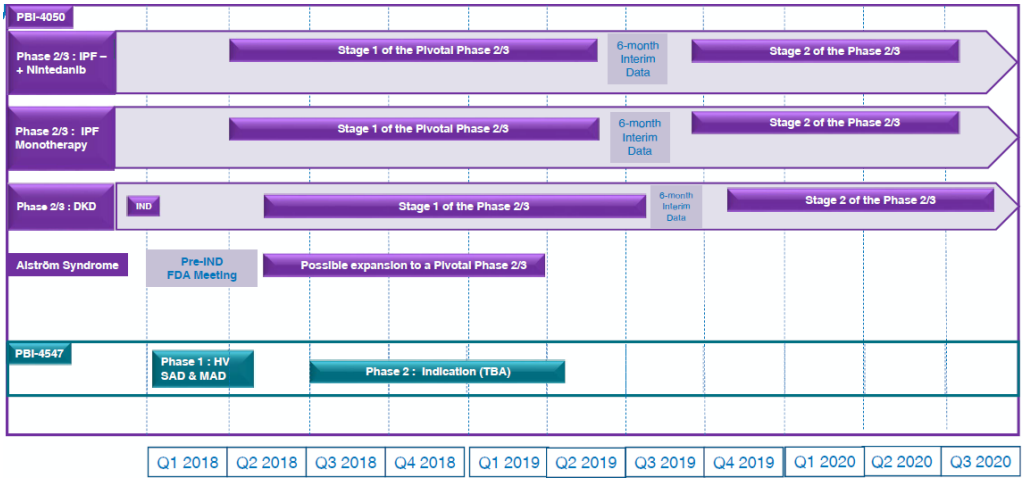
Source: Company reports

The company also indicated that it would provide guidance on clinical progress and launch timelines for IVIG in the near-term. IVIG is currently being studied in a pivotal Ph. III open label, single arm, two-cohort multicenter clinical trial that is investigating the safety, tolerability, efficacy and pharmacokinetics of IVIG in a total of 75 patients suffering from Primary immunodeficiency disease (PIDD), including 50 adults (Cohort 1) and 25 children (Cohort 2). Current guidance suggests the adult portion of the trial will be completed in Q4/17 with a BLA filed shortly thereafter.

PBI-4050 - search for licensing/partnership deal continues

As expected, management provided commentary on PBI-4050 Ph. II/III trial initiation for IPF, in addition to other indications on this morning's conference call. Most notably, the company indicated that it would begin enrolling patients for the pivotal trial in late Q1/early Q2, broadly consistent with our forecast. The company expects 6-month interim data to be released in Q3/2019 (Exhibit 4). Management indicated that interest in the molecule – as it pertains to a potential licensing and/or partnership – has increased in light of competitor data from FGEN and GLPG. We outlined the data from these competitors in our Q2 note (see link here) and flagged the need for PLI to provide a larger, controlled data set for PBI-4050 given its comparison to existing best in-class therapies. Finally, management again stated that a mechanism of action for PBI-4050 would be available in the "coming months" but did not provide any further details.

Exhibit 4: PBI-4050 clinical program timelines



Source: Company reports

Valuation

We value ProMetic using a sum-of-the-parts valuation that consists of two separate DCFs analyses: one for the bioseparation and plasma-derived proteins businesses, and a second for the small molecule opportunity or PBI-4050. Our base case value for the bioseparation and plasma-derived proteins businesses equates to $2.42/sh. Our base case value for the PBI-4050 opportunity equates to $1.07/sh for total ProMetic valuation of $3.49/sh and a price target of $3.50/sh. This valuation and subsequent price target supports our Outperform, Speculative Risk rating. Our Speculative Risk rating reflects the risk associated with a clinical stage biotechnology company that is not generating cash flow at this point. Although PLI is running several different trials in various indications with both PBI-4050 and plasma-derived therapeutics, there is no guarantee that its products will reach the market.

We believe this separation is a necessary exercise primarily due to the significant difference in clinical risk associated with the two programs but also due to the commercial capabilities of ProMetic. ProMetic has been running a successful bioseparation business for more than 25 years and is putting in place the manufacturing infrastructure to commercialize its plasma-derived product portfolio. While the company has the ability to develop small molecules up to Phase II, it is not set up to run larger trials targeting primary care indications, nor does it have the marketing heft to launch a large product. As a result, we would expect the company to partner PBI-4050 to a larger pharmaceutical corporation.

Risks to rating and price target

The following risks could affect our price target and rating.

- **Clinical failures.** ProMetic is running clinical to trials for several products candidates. With the exception of PBI-4050, we believe the plasma-derived product candidates are relatively low-risk trials, as the aim of these studies is to supply patients who are deficient of a naturally occurring protein to levels that restore normal levels of biological activity rather than a specific efficacy endpoint.
- **Clinical delays.** The company is engaged in a number of clinical trials that are focused on rare diseases. By definition, this group has a scarcity of patients. Identifying and enrolling patients could be an ongoing challenge if ties with advocacy groups are not strong or other programs are also attempting to enroll patients simultaneously. As such, delays in clinical development and commercialization are a distinct possibility.
- **Execution risk as projects are increasing and stretching management's capacity.** The number of opportunities at ProMetic appears to be expanding, and the company already has a broad number of projects under way across the globe. Our biggest concern is whether management can continue to execute on all of these opportunities although partnerships have helped to spread the responsibilities (financial and management) and reduce this risk. Steadily improving the span and depth of the management team should continue to diminish this concern.
- **New technological advances.** The risk of any technology company is the arrival of a new competitor that can reduce the cost or alter a market completely. ProMetic is attempting to introduce an improved means of extracting plasma proteins but other companies are also developing processes. If these other companies are successful at commercializing a novel technology, ProMetic's cost and yield advantages could be significantly reduced. We are keeping a close eye on competitive technologies, but we believe it may take 5–10 years for a new technology to be commercially viable, as regulators tend to be conservative in validating novel processes.
- **Future financing needs.** Although ProMetic is generating more revenue than it has in previous years, it will need to fund further clinical development of its pipeline through the public markets. We also anticipate that ProMetic will selectively license out therapeutic products (of particular interest is PBI-4050) to help fund its pipeline and other future developments.

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Company description

ProMetic Life Sciences is a biopharmaceutical company focused on developing plasma-derived therapeutics using its bio-separation technology, and small-molecule drugs. ProMetic was founded in 1992 and is headquartered in Laval, Québec, Canada. The company operates in two divisions: Protein Technology and Therapeutics. Its protein technology is utilized for large-scale drug purification, drug development, and proteomics. Its therapeutics division develops molecules targeting unmet indications and its lead candidate is currently in clinical trials for fibrosis.

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ProMetic Life Sciences (TSX:PLI)

(C$ thousands except per share data) FY End December	Q1/16A	Q2/16A	Q3/16A	Q4/16A	Q1/17A	Q2/17A	Q3/17A	Q4/17E	2015A	2016A	2017E	2018E
Selected Income Statement Items												
Total Revenue	**$5,249**	**$3,295**	**$3,737**	**$4,111**	**$4,866**	**$3,619**	**$24,034**	**$5,921**	**$24,534**	**$16,392**	**$38,440**	**$58,136**
Expenses												
COGS	$1,793	$1,571	$1,852	$1,362	$2,390	$1,551	$3,780	$2,368	$8,219	$6,578	$10,089	$2,339
COGS-PPPS	$0	$0	$0	$0	$0	$0	$0	$4,064	$0	$0	$4,064	$41,774
R&D - recharged	$0	$0	$0	$0	$0	$0	$0	$0	$861	$0	$0	$0
R&D - non-rechargeable	$16,477	$19,351	$23,576	$28,672	$24,313	$24,454	$23,201	$24,371	$49,389	$88,076	$96,339	$67,437
Admin & marketing	$4,826	$5,184	$6,475	$12,816	$6,946	$8,061	$7,653	$8,971	$16,575	$29,301	$31,631	$37,957
FX	$819	($113)	($55)	($228)	$216	$0	$0	$0	($2,078)	$423	$216	$0
Impairment/gain	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Share profit/loss associated company	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
FV of warrant liability	$0	$0	$0	$0	$0	$0	$0	$0	$1,458	$0	$0	$0
Other	$850	$3,734	$1,179	$3,138	$1,374	$2,170	$6,458	$0	$12,034	$8,901	$10,002	$0
Total Expenses	$24,765	$29,727	$33,027	$45,760	$35,239	$36,236	$41,092	$39,775	$86,458	$133,279	$152,342	$149,509
Operating Profit (Loss)	**($19,516)**	**($26,432)**	**($29,290)**	**($41,649)**	**($30,373)**	**($32,617)**	**($17,058)**	**($33,854)**	**($61,924)**	**($116,887)**	**($113,902)**	**($91,373)**
Adj. EBITDA	($15,966)	($20,541)	($26,980)	($33,963)	($26,535)	($27,278)	($6,660)	($28,358)	($45,101)	($97,450)	($88,831)	($75,375)
Other Income	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Interest income	$0	$0	$0	$0	$0	$0	$0	$77	$0	$0	$77	$1,088
Interest -LT debt	$0	$0	$0	$0	$0	$0	$0	($1,412)	$0	$0	($1,412)	($5,744)
Interest - bank	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Profit (loss) before income taxes	**($19,516)**	**($26,432)**	**($29,290)**	**($41,649)**	**($30,373)**	**($32,617)**	**($17,058)**	**($32,519)**	**($61,924)**	**($116,887)**	**($112,567)**	**($86,717)**
Future income tax recovery	$1,553.00	$1,815.00	$1,312.00	$1,540.00	$1,240.00	$1,110.00	($692.00)	$0.00	$5,141.00	$6,220.00	$1,658.00	$0.00
Current taxes	$0.00	($6.00)	($1.00)	$5.00	$0.00	$0.00	$0.00	$0.00	($2.00)	($2.00)	$0.00	$0.00
Net profit (loss) for the year	**(17,963)**	**(24,623)**	**(27,979)**	**(40,104)**	**(29,133)**	**(31,507)**	**(17,750)**	**(32,519)**	**(56,785)**	**(110,669)**	**(110,909)**	**(86,717)**
EPS (fully diluted)	**($0.03)**	**($0.04)**	**($0.05)**	**($0.07)**	**($0.04)**	**($0.05)**	**($0.03)**	**($0.05)**	**($0.09)**	**($0.18)**	**($0.16)**	**($0.12)**
Weighted avg. shares outstanding	581,971	590,834	604,389	616,378	651,995	668,829	704,446	700,796	570,849	598,393	681,517	700,796
FD common shares	581,971	590,834	604,389	616,378	651,995	669,546	704,446	708,005	570,849	598,393	683,498	708,005

Source: Company Reports, RBC Capital Markets Estimates

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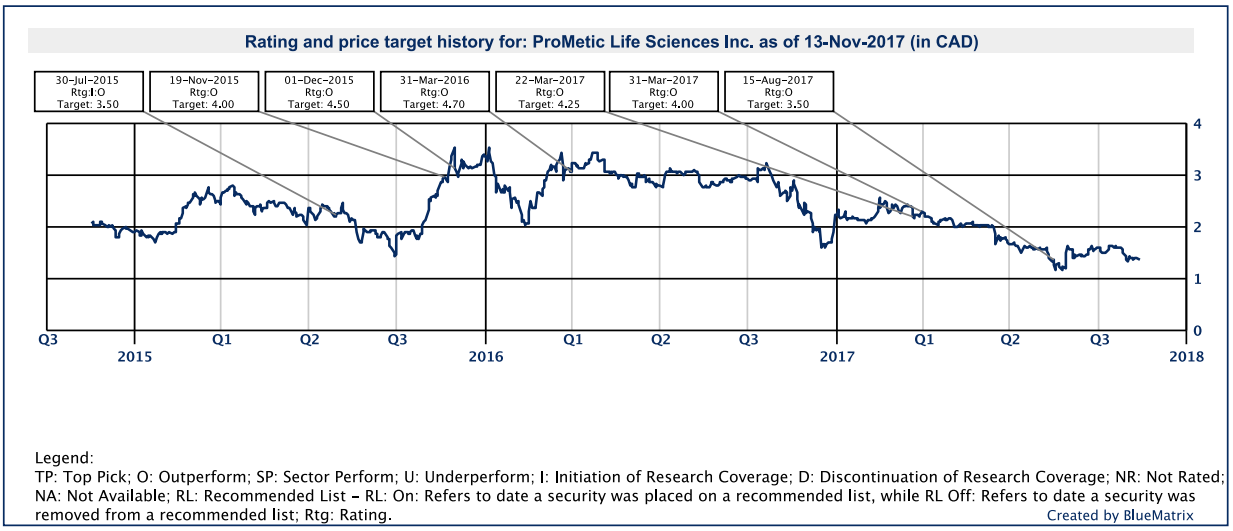
Distribution of ratings

RBC Capital Markets, Equity Research

As of 30-Sep-2017

			Investment Banking Serv./Past 12 Mos.	
Rating	**Count**	**Percent**	**Count**	**Percent**
BUY [Top Pick & Outperform]	**859**	**52.92**	**294**	**34.23**
HOLD [Sector Perform]	**660**	**40.67**	**154**	**23.33**
SELL [Underperform]	**104**	**6.41**	**7**	**6.73**



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ProMetic Life Sciences Inc.

Valuation

We value ProMetic using a sum-of-the-parts valuation that consists of two separate DCFs analyses: one for the bioseparation and plasma-derived proteins businesses, and a second for the small molecule opportunity or PBI-4050. Our base case value for the bioseparation and plasma-derived proteins businesses equates to $2.42/sh. Our base case value for the PBI-4050 opportunity equates to $1.07/sh for total ProMetic valuation of $3.49/sh and a price target of $3.50/sh. This valuation and subsequent price target supports our Outperform, Speculative Risk rating. Our Speculative Risk rating reflects the risk associated with a clinical stage biotechnology company that is not generating cash flow at this point. Although PLI is running several different trials in various indications with both PBI-4050 and plasma-derived therapeutics, there is no guarantee that its products will reach the market.

We believe this separation is a necessary exercise primarily due to the significant difference in clinical risk associated with the two programs but also due to the commercial capabilities of ProMetic. ProMetic has been running a successful bioseparation business for more than 25 years and is putting in place the manufacturing infrastructure to commercialize its plasma-derived product portfolio. While the company has the ability to develop small molecules up to Phase II, it is not set up to run larger trials targeting primary care indications, nor does it have the marketing heft to launch a large product. As a result, we would expect the company to partner PBI-4050 to a larger pharmaceutical corporation.

Risks to rating and price target

The following risks could affect our price target and rating.

- **Clinical failures.** ProMetic is running clinical to trials for several products candidates. With the exception of PBI-4050, we believe the plasma-derived product candidates are relatively low-risk trials, as the aim of these studies is to supply patients who are deficient of a naturally occurring protein to levels that restore normal levels of biological activity rather than a specific efficacy endpoint.
- **Clinical delays.** The company is engaged in a number of clinical trials that are focused on rare diseases. By definition, this group has a scarcity of patients. Identifying and enrolling patients could be an ongoing challenge if ties with advocacy groups are not strong or other programs are also attempting to enroll patients simultaneously. As such, delays in clinical development and commercialization are a distinct possibility.
- **Execution risk as projects are increasing and stretching management's capacity.** The number of opportunities at ProMetic appears to be expanding, and the company already has a broad number of projects under way across the globe. Our biggest concern is whether management can continue to execute on all of these opportunities although partnerships have helped to spread the responsibilities (financial and management) and reduce this risk. Steadily improving the span and depth of the management team should continue to diminish this concern.
- **New technological advances.** The risk of any technology company is the arrival of a new competitor that can reduce the cost or alter a market completely. ProMetic is attempting to introduce an improved means of extracting plasma proteins but other companies are also developing processes. If these other companies are successful at commercializing a novel technology, ProMetic's cost and yield advantages could be significantly reduced. We are keeping a close eye on competitive technologies, but we believe it may take 5–10 years for a new technology to be commercially viable, as regulators tend to be conservative in validating novel processes.
- **Future financing needs.** Although ProMetic is generating more revenue than it has in previous years, it will need to fund further clinical development of its pipeline through the public markets. We also anticipate that ProMetic will selectively license out therapeutic products (of particular interest is PBI-4050) to help fund its pipeline and other future developments.

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