

M Pharmaceutical, Inc.
(CSX: MQ, OTCQB: MPHMF)
Target Price: CAD \$0.55; USD \$0.41)

M Pharmaceutical, Inc. ("M Pharma", CSX: MQ, OTCQB: MPHMF, FWB:T3F2), is a biomedical company focused on addressing unmet needs for obesity and female health. M Pharma has undergone a sweeping change over the last six months. The company completed a strategic review of its diabetes and obesity pipeline candidates, electing to focus on C-103 and Trimeo, while adding a new end market with the January announcement that it would acquire 40Js LLC. Following these moves, the company is now focused on bringing to market solutions intended to improve the health and quality of life for people suffering from obesity, and a new slate of products targeting improved female sexual health and well being. We expect continued updates from M Pharma in coming months as it seeks to close the 40Js deal while advancing its pipeline.

Investment Highlights

Announced deal to acquire 40Js LLC reshapes pipeline

On January 4, 2017, M Pharma announced that it would acquire Cincinnati, OH-based research and development company, 40Js LLC. 40Js specializes in developing candidates for women's health, including for sexual dysfunction, sexual arousal and fertility. Terms of the deal include the issuance of 80mn new shares and a cash payment of C\$1.5mn, pending approvals and due diligence completion. Assuming the deal closes as expected, M Pharma's pipeline will now be focused on two verticals: obesity and female health and wellness.

40Js focused on female health and wellness

40Js products are led by an OTC topical formulation of L-Arginine, menthol and other ingredients, which is intended to address female sexual dysfunction and increase arousal. According to management this product does have international sales. These international sales would potentially provide a modest income stream to M Pharma after the acquisition, which could be deployed to help advance its other clinical initiatives. The plan for 40Js sexual dysfunction product development in the US, however, would be to develop and introduce a paraben-free formulation that is local and non-toxic, and does not affect the central nervous system. Management believes this will improve the chances of FDA clearance and also provide differentiation in the market as the medical community is looking for safe alternatives to existing treatment methods. The move to acquire 40Js is an expansion from an earlier announcement that the company would acquire fertility treatment ToConceive, which the company stated was a natural conception lubricant, which is applied topically to support sperm survival and capacitation.

C-103 to drive obesity line

M Pharma also provided an update to its strategy for developing and commercializing obesity products. While the company will continue to develop Trimeo, we expect the near-term to be focused on advancing C-103 in OTC and prescription strength formulations. C-103 is a reformulation of Orlistat, an FDA approved medication for weight loss sold by Roche (prescription Xenical® 120mg capsules) and in Glaxo Smith Kline (OTC Alli® 60mg capsules). C-103 represents a large potential opportunity for M Pharma as Orlistat has been shown to be an effective weight loss medication that had peak

sales of \$900mn in 2007, before sales declined due to well publicized, embarrassing side effects. The C-103 reformulation aims to match Orlistat's efficacy without these side effects, and management believes C-103 is also differentiated in the market in that it does not affect the central nervous system.

Updating target to CAD \$0.55 for M Pharma

We are updating our price target to reflect 150mn diluted shares following the acquisition of C-103. We view M Pharma as an intriguing high risk / high reward investment targeting a large and growing segment of the healthcare industry.

Stock Details (02/7/17)

CSX / OTCQB:	MQ / MPHMF
Sector / Industry	Healthcare / Pharmaceuticals
Price target	CAD \$0.55, USD \$0.41
Recent share price	CAD \$0.06
Diluted Shares o/s (mn)	166.3
Market cap (in CAD \$mn)	9.1
Stock Price high/low (CAD)	\$0.12 - \$0.02

Source: Thomson Reuters, SeeThruEquity. CAD

Key Financial (CAD \$mn, unless specified)

	FY14	FY15	FY16E
Revenues	0.0	0.0	0.0
EBITDA	(0.7)	(4.4)	(2.1)
EBIT	(0.7)	(4.5)	(2.1)
Net Income	(0.4)	(5.1)	(2.1)
EPS (\$)	(0.35)	(0.23)	(0.02)

Source: SeeThruEquity Research

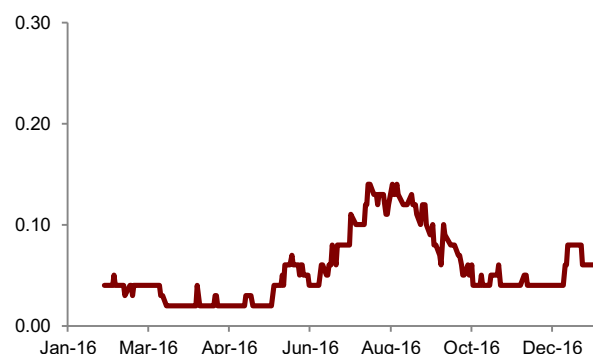
Key Ratios

	FY14	FY15	FY16E
Gross margin (%)	NM	NM	NM
Operating Margin (%)	NM	NM	NM
EBITDA margin (%)	NM	NM	NM
Net margin (%)	NM	NM	NM
EV/Revenue (x)	NM	NM	NM

Source: SeeThruEquity Research

LTM Stock Performance

Share price performance (CAD \$, LTM)



Source: Thomson Reuters

M Pharma announces acquisition of Cincinnati, Ohio-based 40Js, expands into female health

- On January 4, 2017, M Pharma announced that it would expand its presence in female health with the acquisition of Cincinnati, OH-based 40Js LLC, a research and development company with seven products in its development pipeline, mostly focused on female sexual health and arousal. Additional, M Pharma has announced plans that it will re-launch another product from 40Js called ToConceive, which is an FDA-cleared product intended to aid women seeking to become pregnant.
- The acquisition of 40Js is expected to add a line of female sexual health products, led by OTC product candidates targeting arousal and female sexual dysfunction. The company's products include an OTC topical formulation of L-Arginine, menthol and other ingredients, which is intended to address female sexual dysfunction and increase arousal.
- According to statements by the company, the products should generate near term revenue with international sales, and M Pharma plans to continue development to introduce a paraben-free formulation that is local and non-toxic, and does not affect the central nervous system. Management believes this will improve the chances of FDA clearance, and also provide differentiation for medical community members looking for a safe alternative to existing treatments with CNS side effects.
- The deal is expected to close in coming weeks after the completion of due diligence. Terms include the issuance of 80mn new M Pharma shares, and a cash payment of C\$1.5mn. M Pharma believes peak sales for its female sexual dysfunction product line, once released, could be as much as \$750mn.
- We expect to learn more about 40Js in coming months, though management has stated the company is targeting \$3.8mn from revenue-generating products in 2018E.

Strategic Review of weight loss and diabetes pipeline leaves M Pharma primarily focused on Chelatexx assets

- M Pharma provided an interesting update to its existing obesity and diabetes development pipeline in November 2016, when it announced that it would pursue the commercialization of both an OTC and a prescription strength of its reformulated version of Orlistat (product C-103), which was acquired from Chelatexx in July 2016.
- Orlistat is an FDA approved medication for weight loss, which is sold by Roche (prescription label Xenical® 120mg capsules) and in an over-the-counter formulation by Glaxo Smith Kline (Alli® 60mg capsules).
- Orlistat is an effective weight loss medication, which works by inhibiting gastric and pancreatic lipases. Orlistat was proven safe and effective in 100+ trials and was shown to reduce body mass and fat in long term treatments. Moreover, Orlistat is the only FDA-approved weight management drug for pediatric populations (approved for children 12 years +). Orlistat also was shown to reduce the incidence of type 2 diabetes and blood pressure. Despite these benefits, Orlistat sales have declined precipitously from a peak level of \$900mn in 2007 due to uncomfortable and well-publicized gastrointestinal-related side effects, which include: steatorrhea, fecal incontinence and frequent / urgent bowel movements.
- **M Pharma pursuing 505(b) (2) pathway for C-103:** M-Pharma's reformulated version of Orlistat (**C-103**) is designed to maintain the safety and efficacy benefits of Orlistat while minimizing / eliminating the uncomfortable and embarrassing side effects.
- **Not affecting the central nervous system provides differentiation:** While the company acknowledges that the market for weight loss products has evolved since peak sales in 2007, the reformulation does offer advantages in the market in that C-103 is not absorbed into the systematic bloodstream and is not a nervous system stimulant. In contrast, most weight loss drugs are anorectics, which suppress appetites and have significant side effects including increased heart rate, blood pressure, suicidal thoughts, and higher risk of stroke and cardiac arrest. Therefore, management will seek to position C-103 as a safe weight loss therapy of choice for adolescents and patients with high risk of stroke.
- M Pharma has acquired issued U.S. patents covering C-103 technology until 2030 from Chelatexx. The FDA confirmed C-103 is eligible for 505(b)(2) approval in the U.S, which is significant because the 505(b)(2) regulatory pathway should allow M Pharma to rely in part on Orlistat data, which could speed time to market. M Pharma management estimates peak sales potential for C-103 could be as much as \$600mn.

- M Pharma will also continue to advance Trimeo, an orally administered volume displacement candidate, for which management has estimated \$85mn in peak sales potential.
- **Large market.** Obesity is becoming a global epidemic; in fact, 27% of the world's population is overweight or obese, with 2.8mn people dying annually from being overweight / obese. These figures suggest that there is a large and urgent need for safe, effective weight management therapies with fewer side effects. Indeed, the global market for weight management is expected to reach \$206.4 billion by 2020E.

Adjusting price target to CAD \$0.55 on new share count

- We are adjusting our price target to CAD \$0.55 and updating our model and valuation for M Pharma reflecting the company's new share count, which we estimate at 166.3mn on a fully diluted basis. The target reflects an upbeat outlook by management for its clinical development timeline including C-103 and its reformulation of orlistat in OTC and prescription strength – as well as management's goal of peak sales of \$600mn for C-103 and \$85mn for Trimeo with commercialization planned for 2019E.
- Our model assumes M Pharma is able to execute attractive growth, though at a more conservative peak sales level for Trimeo and C-103 product, where management sees peak sales of as much as \$600mn and \$85mn, respectively.
- The target assumes fully diluted M Pharma shares of 166.3mn with a discount rate of 16.6% and a probability factor discount of 0.55x.
- We did not ascribe any value for the remaining diabetes products in development, though we do expect the company to look to shed or pursue partnerships for these product lines and focus on obesity and female sexual health. Our model does not include estimates relating to 40Js – we would look to update our estimates after the deal closes and we have seen consolidated results – we note that management expects revenue-generating products to produce \$3.8mn in 2018E.
- **C-103 Timeline:** We are assuming initial commercialization 2019E for C-103 and 2020E for Trimeo. We also expect the company will be seeking to raise as much as \$10mn from new equity issuances, the exercise of warrants, licensing deals, grants and debt issuances in order to fund development including trials for C-103 and Trimeo.
- Considering these factors, and a new fully diluted share count of 166.3mn, we are updating our price target to CAD \$0.55. We view M Pharma as a high risk / high reward investment targeting the large and growing market for weight loss and obesity therapies.



About M Pharmaceutical Inc.

Formed in early 2015, M Pharmaceutical Inc. is a clinical-stage company developing innovative technologies for obesity and weight management. In addition to the intended acquisition of C-103 from Chelatexx, LLC, the Company will focus on the development of its Trimeo capsules, temporary controllable pseudobezoars for non-invasive gastric volume reduction for the treatment of obesity, for which it has exclusive rights.

M Pharmaceutical trades on the Canadian Securities Exchange (CSE) under the ticker symbol "MQ" as well as on the OTCQB as "MPHMF" and FWB (Frankfurt Stock Exchange) as "T3F2."



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