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## Citius Pharmaceuticals (Nasdaq/CTXR)

**BUY**
*Citius making clinical progress*

*Citius Pharma is a specialty pharmaceutical company dedicated to the development and commercialization of critical care products targeting important medical needs*

### Investment Highlights

**1) Citius has made solid progress this year on its key pipeline program, Mino-Lok, with the enrollment of the first patient in this pivotal Phase 3 trial in February.** The Phase 3 trial for this antibiotic lock therapy/device for catheter-related blood stream infections (CRBSIs) is planned for 700 patients at 50 sites in the US, including Detroit's Henry Ford Health System, the first site. Mino-Lok has gained both Fast Track and QIDP designations from the US FDA, and if approved, would be the first approved antibiotic lock for the treatment of CRBSIs, an estimated \$1+ billion market worldwide. Citius also bolstered the value of its intellectual property for the product earlier this year, completing the registration of the Mino-Lok Trademark with the US Patent & Trademark Office. Finally, the Company earlier this year held a 5-person expert panel on the disease and its treatment and subsequently published proceedings of the roundtable discussion. Timetable for Mino-Lok, including a second registration study to begin later this year, is still on track for a 2019 NDA submission to the FDA.

**2) Also showing progress this year has been the Company's Hydro-Lido proprietary prescription-strength topical formulation for symptomatic hemorrhoid treatment.** Following a recent Type C meeting with the FDA on its Phase 2a trial results, Citius has announced it will focus on a target population of patients with grade 2 and 3 hemorrhoids, and select a higher potency corticosteroid in its steroid/anesthetic combination formulation, now termed CITI-002. Citius plans to use the FDA's 505(b)(2) pathway for the Hydro-Lido pipeline program, and initiate a Phase 2b trial for the product in the near future, with the pre-clinical and clinical development programs for CITI-002 remaining similar to those conducted for the development of CITI-001, in support of the design for a planned Phase 3 clinical trial.

July 6, 2018

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**Current Price**      **\$2.27**
**Price Target**      **\$10.00**

	F2016A	F2017A	F2018E
Estimates			
Revenues(\$000s)	\$0	\$0 A	\$0 E
1Q December	0	0	0 A
2Q March	0	0	0 A
3Q June	0	0	0
4Q September	0	0	0
EPS (diluted)	(\$2.29)	(\$1.89) A	(\$1.57) E
1Q December	(0.53)	(0.44)	(0.38) A
2Q March	(0.35)	(0.55)	(0.44) A
3Q June	(0.75)	(0.49)	
4Q September	(0.53)	(0.43)	

	Earnings (\$/Share)	(\$1.81)	(\$1.52)	(\$1.33)
	EV/EBITDA (x)	N/A	N/A	N/A
<b>Stock Data</b>				
52-Week Range			\$2.08-\$6.37	
Shares Outstanding (mil.)			10.7	
Market Capitalization (mil.)			\$24.2	
Enterprise Value (mil.)			\$19.2	
Debt to Capital (3/18)			0.7%	
Book Value/Share (3/18)			\$2.20	
Price/Book			1.0 x	
Average Trading Volume (3-month)			18,000	
Insider Ownership			53.6%	
Institutional Ownership			6.6%	
Short interest (Millions)			0.02	
Dividend / Yield			\$0.00/0.0%	



Price target and ratings changes over the past 3 yrs:  
Initiated - December 15, 2017 - Buy - Price Target \$10.00

**3) Finally, Citius has improved its balance sheet through recent private equity placements, including \$2 million in gross proceeds in March 2018 and \$6 million in gross proceeds closed last December, as well as from exercise of stock warrants this fiscal year.** At the end of Q2/2018 (March), the Company had \$5.0 million in cash on hand, with very little debt of less than \$200,000. For the first six months of fiscal 2018 (ending September), Citius had net losses of \$7.7 million, or (\$0.82) per share, as compared with net losses of \$4.9 million or (\$0.99) per share in the previous year period. Increased losses this year were primarily due to higher R&D expenses as the Company initiated its Phase 3 clinical trial for Mino-Lok this fiscal year, and to a lesser extent due to higher general and administrative overhead expenses necessary as part of being a public company. Operating cash burn for the first six months of fiscal 2018 was approximately \$6.5 million, and the Company has recently stated that they believe they have adequate financial resources available to last through the end of this fiscal year. Our estimate for net loss for fiscal 2018E for Citius is \$16.5 million, or (\$1.57) per share. The Company also continues its active program of targeted acquisitions and business development, focusing on areas of adjunctive cancer care, such as infection, chronic pain, and nausea.

## Conclusion/Stock Valuation

Possibly due to its recent formation as a public company a little more than two years ago, the share price performance of Citius Pharmaceuticals has lagged others in the medical device/pharmaceutical area. However, with an advanced and progressing product pipeline in several large medical markets, a recently-strengthened balance sheet, an experienced management and advisory team on board, and a number of developmental milestones and catalysts expected in the near-term, Citius shares may soon attract both growth-oriented and value-oriented investors. Thus, we believe CTXR shares may soon follow those of other medical device stocks which have recently exhibited strong price appreciation, and therefore we are maintaining our Buy rating on CTXR shares and 12-18 month price target of \$10.00 per share. (For additional information on our stock valuation analysis of CTXR shares please refer to our Initiation Report dated December 15, 2017)

## Risk Factors

**In addition to normal economic and market risk factors that impact most equities and the common risks shared by Citius Pharma with other companies in the industry, we believe an investment in CTXR involves the following risks:**

- **Reliance on key management** – At present, CTXR relies on several key members of its management team who either founded the Company or have been in key executive positions for an extended period of time. Should one or more of these key executives leave the Company, CTXR could find it difficult to replace their long-standing knowledge of operations and industry expertise.
- **Reliance on future partnerships** – To date, CTXR has not signed major development partnerships for its product candidates. However, in the future the Company may decide or be required to sign such agreements, and as such certain factors related to product marketing and/or new product development may be determined by third parties and out of the control of Company management.
- **Limited stock liquidity** – Trading volume in CTXR stock is comparatively light and these shares have a relatively limited history of trading compared with other healthcare stocks. As such, news regarding CTXR, its target market, partners and/or competitors could lead to significant volatility in the stock price.

- **Competitive markets** – The Company and its potential partners are expected to compete in its target medical device and pharmaceuticals markets with a number of companies, many of which are considerably larger than the Company. There can be no assurance that the Company and its partners will be able to successfully compete and launch new products into these competitive markets in the future.
- **FDA and regulatory risks** – CTXR and its potential partners are subject to regulatory review for ongoing product research and development, principally approval and review processes of the US Food and Drug Administration and other non-domestic regulatory agencies. In addition, the quality assurance and manufacture of the Company's products will be subject to ongoing oversight and regulation, and any negative correspondence from the FDA or other regulatory agencies in the future could have an adverse effect on the ongoing operations of the Company.
- **Lack of historic profitability** – CTXR has not achieved operating profitability since its founding, and according to our forecasts may not be expected to do so in the near future. Although the Company maintains adequate cash reserves at the present time, there can be no assurance the Company will not need to raise additional working capital in the future should operating losses continue.
- **Need to defend patents and other intellectual property** – CTXR currently has issued patents and patent applications pending in the US on its medical devices and pharmaceutical products, some of which may expire in the near future. The Company may be required to defend its patents in the US and overseas in the future, and there can be no assurance these defenses will be successful.

Robert M. Wasserman

**Citius Pharmaceuticals, Inc.**  
**Consolidated Statements of Income**  
 (In 000s, except per share data)

FYE September	2014 (9-Mos.)	2015	1Q16 December	2Q16 March	3Q16 June	4Q16 September	2016	1Q17 December	2Q17 March	3Q17 June	4Q17 September	2017	2018E
Revenue	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Operating Expenses													
Research and development	1	1,797	829	(200)	381	1,923	2,933	1,411	860	191	474	2,936	8,000
General and administrative	183	947	294	756	1,465	1,269	3,784	1,132	1,384	1,798	1,749	6,063	7,000
Stock-based compensation	470	486	121	116	281	214	732	242	300	267	179	987	1,000
Total operating expenses	654	3,230	1,245	672	2,126	3,407	7,449	2,785	2,544	2,255	2,402	9,986	16,000
Income (loss) from operations	(\$654)	(\$3,230)	(\$1,245)	(\$672)	(\$2,126)	(\$3,407)	(\$7,449)	(\$2,785)	(\$2,544)	(\$2,255)	(\$2,402)	(\$9,986)	(\$16,000)
Other income (loss)	(84)	328	24	(198)	(1,489)	817	(846)	609	(200)	(167)	(641)	(399)	(500)
Net income (loss) before taxes	(\$738)	(\$2,902)	(\$1,221)	(\$869)	(\$3,616)	(\$2,590)	(\$8,296)	(\$2,176)	(\$2,743)	(\$2,422)	(\$3,043)	(\$10,385)	(\$16,500)
Income taxes benefit	0	0	0	0	0	0	0	0	0	0	0	0	0
Net income (loss)	(\$738)	(\$2,902)	(\$1,221)	(\$869)	(\$3,616)	(\$2,590)	(\$8,296)	(\$2,176)	(\$2,743)	(\$2,422)	(\$3,043)	(\$10,385)	(\$16,500)
Basic income per share	(\$0.57)	(\$1.37)	(\$0.53)	(\$0.35)	(\$0.75)	(\$0.53)	(\$2.29)	(\$0.44)	(\$0.55)	(\$0.49)	(\$0.43)	(\$1.89)	(\$1.57)
Diluted income per share	(\$0.57)	(\$1.37)	(\$0.53)	(\$0.35)	(\$0.75)	(\$0.53)	(\$2.29)	(\$0.44)	(\$0.55)	(\$0.49)	(\$0.43)	(\$1.89)	(\$1.57)
Basic shares outstanding	1,288	2,122	2,294	2,483	4,844	4,871	3,623	4,903	4,993	4,953	7,080	5,482	10,500
Diluted shares outstanding	1,288	2,122	2,294	2,483	4,844	4,871	3,623	4,903	4,993	4,953	7,080	5,482	10,500
Key ratios:													
Revenue growth	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
G & A/revenue	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
R&D/revenue	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
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%
Deprec, amort & non-cash comp.	3,958	154	100	290	1,900	(560)	1,730	(380)	780	800	1,100	2,300	2,500
Cash Flow/share	\$2.50	(\$1.29)	(\$0.49)	(\$0.23)	(\$0.35)	(\$0.65)	(\$1.81)	(\$0.52)	(\$0.39)	(\$0.33)	(\$0.27)	(\$1.52)	(\$1.33)
EBITDA/share	\$2.50	(\$1.29)	(\$0.49)	(\$0.23)	(\$0.35)	(\$0.65)	(\$1.81)	(\$0.52)	(\$0.39)	(\$0.33)	(\$0.27)	(\$1.52)	(\$1.33)

**Balance Sheets**

(\$000s)

	9/30/17	3/31/18
<i>Assets:</i>		
<b>Current Assets</b>		
Cash and equivalents	\$3,204	\$5,008
Prepaid expenses and other current assets	220	65
Total current	3,424	5,073
Property and equipment, net	3	2
<b>Other Assets</b>		
Deposits	2	2
In-process R&D	19,400	19,400
Goodwill	1,587	1,587
Total Assets	\$24,417	\$26,064

*Liabilities:*
Current liabilities

Accounts payable	\$602	\$1,400
Accrued expenses	561	143
Accrued compensation	1,063	795
Accrued interest	42	50
Notes payable - related parties	173	173
Due to related party	28	0
Total current	2,469	2,562
Stockholders' equity	21,947	23,502
TOTAL LIAB & EQ	\$24,417	\$26,064

Source: Dawson James Securities, Inc. estimates; Company documents

**Important Disclosures:**

**Price Chart:**



Price target and ratings changes over the past 3 years:

Initiated – Buy - December 15, 2017 – Price Target \$10.00

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- 1) **Buy:** the analyst believes the price of the stock will appreciate and produce a total return of at least 20% over the next 12-18 months;
- 2) **Neutral:** the analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 3) **Sell:** the analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

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	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	21	88%	7	33%
Market Perform (Neutral)	3	13%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	24	100%	7	29%

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