

May 13, 2019

Spring Bank Pharmaceuticals (Nasdaq/SBPH)
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BUY
2019 Pivotal for HBV pipeline

Spring Bank is a clinical-stage biopharmaceutical company engaged in the discovery and development of a novel class of therapeutics using its proprietary small molecule nucleic acid hybrid (SMNH) chemistry platform.

Investment Highlights

1) Spring Bank recently reported financial results for their first quarter 2019 as well as progress on their clinical programs. Key highlight for the Company so far this year has been completing dosing chronic HBV patients in the Phase 2b inarigivir ACHIEVE trial and presenting these data at this Spring's European Association for the Study of the Liver (EASL). The trial's robust results showed 26% of the dosed patients had a clinically significant reduction in HBsAg at week 12 and results have set the stage for the recently launched CATALYST 1 and 2 Phase 2 trials. CATALYST 1 and 2 use just one dosage strength of inarigivir (400 mg) but are studying multiple dosing periods and several adjunct regimens, all gearing up to a potential Phase 3 trial initiation next year. In other chronic HBV clinical programs, the Company fully enrolled its Phase 2 co-administration study (inarigivir and a nucleotide analogue, or NUC), and expects to present or report these data later this year.

2) In the most recent first quarter, the Company reported a loss from operations of \$8.4 million as compared to a loss of \$6.2 million in the previous year's period, and a net loss of \$5.3 million or (\$0.32) per share for Q1/2019, compared to a net loss of \$4.9 million or (\$0.37) per share in Q1/2018. The increased loss this year was due to higher R&D spending of \$5.6 million versus \$4.0 million last year as Spring Bank ramped up its clinical programs, and to a lesser extent increased general and administrative costs (\$2.8 million compared to \$2.2 million), offset to some extent by higher interest income and a larger non-cash gain in fair value of warrant liabilities. Operating cash burn for the Company for Q1/19 was approximately \$6.8 million, just slightly greater than the \$6.2 million in cash used in the same period one year ago, and at the end of the first quarter Spring Bank held \$57.5 million in cash and marketable securities on its balance sheet, which the Company has estimated will be sufficient to fund its operations (at current levels of activity) for well over two years.

Current Price \$6.97
Price Target \$14.50

| Estimates | F2017A | F2018A | F2019E |
|-------------------------|-----------------|-----------------|-----------------|
| Revenues(\$000s) | \$0 | \$0 | \$0 |
| 1Q March | 0 | 0 | 0 A |
| 2Q June | 0 | 0 | 0 E |
| 3Q September | 0 | 0 | 0 E |
| 4Q December | 0 | 0 | 0 E |
| EPS (diluted) | (\$2.48) | (\$1.56) | (\$1.92) |
| 1Q March | (0.69) | (0.37) | (0.32) A |
| 2Q June | (0.93) | (0.29) | (0.52) E |
| 3Q September | (0.85) | (0.53) | (0.53) E |
| 4Q December | (0.11) | (0.33) | (0.54) E |

| | | | |
|---------------|----------|----------|----------|
| EBITDA/Share | (\$2.30) | (\$1.34) | (\$1.65) |
| EV/EBITDA (x) | N/A | N/A | N/A |

| Stock Data | |
|----------------------------------|----------------|
| 52-Week Range | \$6.30-\$15.00 |
| Shares Outstanding (mil.) | 16.4 |
| Market Capitalization (mil.) | \$114.6 |
| Enterprise Value (mil.) | \$68.0 |
| Debt to Capital (3/19) | 0.0% |
| Book Value/Share (3/19) | \$3.14 |
| Price/Book | 2.2 x |
| Average Trading Volume (3-Month) | 35,800 |
| Insider Ownership | 14.9% |
| Institutional Ownership | 43.2% |
| Short interest | 165,000 |
| Dividend / Yield | \$0.00/0.0% |



Price target and ratings changes over the past 3 yrs:
 Updated - August 7, 2017 - Buy - Price Target \$27.50
 Updated - May 13, 2019 - Buy - Price Target adjusted to \$14.50

Please find Important Disclosures beginning on Page 5.

Risk Factors

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

- **Reliance on key management** – At present, SBPH 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, SBPH could find it difficult to replace their long-standing knowledge of operations and industry expertise.
- **Reliance on partnerships** – To date, SBPH has signed a number of marketing and development partnerships for its pharmaceutical technologies and products. Thus, in the future certain factors related to product marketing and sales and new product development may be determined by third parties and out of the control of Company management.
- **Limited stock liquidity** – Trading volume in SBPH stock is comparatively light and these shares have a relatively limited history of trading on US stock exchanges compared with other healthcare stocks. As such, news regarding SBPH, its target market, partners and/or competitors could lead to significant volatility in the stock price.
- **Competitive Markets** – The Company and its partners compete in its target pharmaceutical product 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** – SBPH and its marketing partners are subject to regulatory review for its ongoing research and development activities, principally the US Food and Drug Administration’s application processes. In addition, the quality assurance and manufacture of the Company’s pharmaceutical products are subject to ongoing oversight and regulation, and any negative correspondence from the FDA or other regulatory agencies could have an adverse effect on the ongoing operations of the Company.
- **Lack of historic profitability** - SBPH has not achieved operating profitability on a quarterly basis for several years, 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** – SBPH currently holds US and International patents on its platform technologies and processes, some of which 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.

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

| FYE December | 2015 | 2016 | 2017 | 1Q18 March | 2Q18 June | 3Q18 September | 4Q18 December | 2018 | 1Q19 March | 2Q19E June | 3Q19E September | 4Q19E December | 2019E |
|--------------------------------|------------|------------|------------|---------------|--------------|-------------------|------------------|------------|---------------|---------------|--------------------|-------------------|------------|
| Grant revenue | \$946 | \$352 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Operating Expenses | | | | | | | | | | | | | |
| Research and development | 7,539 | 14,018 | 13,075 | 3,977 | 5,555 | 5,656 | 4,563 | 19,751 | 5,567 | 5,600 | 5,700 | 5,800 | 22,667 |
| General and administrative | 5,003 | 5,739 | 8,178 | 2,223 | 2,399 | 2,059 | 2,038 | 8,719 | 2,810 | 2,900 | 3,000 | 3,100 | 11,810 |
| Other operating expenses | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total operating expenses | 12,542 | 19,757 | 21,253 | 6,200 | 7,954 | 7,715 | 6,601 | 28,470 | 8,377 | 8,500 | 8,700 | 8,900 | 34,477 |
| Income (loss) from operations | (\$11,596) | (\$19,405) | (\$21,253) | (\$6,200) | (\$7,954) | (\$7,715) | (\$6,601) | (\$28,470) | (\$8,377) | (\$8,500) | (\$8,700) | (\$8,900) | (\$34,477) |
| Other income (loss) | 14 | 2,031 | (6,442) | 1,336 | 4,147 | (1,079) | 1,230 | 5,634 | 3,066 | (100) | (100) | (100) | 2,766 |
| Net income (loss) before taxes | (\$11,582) | (\$17,374) | (\$27,695) | (\$4,864) | (\$3,807) | (\$8,794) | (\$5,371) | (\$22,836) | (\$5,311) | (\$8,600) | (\$8,800) | (\$9,000) | (\$31,711) |
| Income taxes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net income (loss) | (\$11,582) | (\$17,374) | (\$27,695) | (\$4,864) | (\$3,807) | (\$8,794) | (\$5,371) | (\$22,836) | (\$5,311) | (\$8,600) | (\$8,800) | (\$9,000) | (\$31,711) |
| Basic income per share | (\$2.04) | (\$2.39) | (\$2.48) | (\$0.37) | (\$0.29) | (\$0.59) | (\$0.33) | (\$1.59) | (\$0.32) | (\$0.52) | (\$0.53) | (\$0.54) | (\$1.92) |
| Diluted income per share | (\$2.04) | (\$2.39) | (\$2.48) | (\$0.37) | (\$0.29) | (\$0.53) | (\$0.33) | (\$1.56) | (\$0.32) | (\$0.52) | (\$0.53) | (\$0.54) | (\$1.92) |
| Basic shares outstanding | 5,683 | 7,257 | 11,153 | 12,992 | 13,179 | 14,841 | 16,400 | 14,372 | 16,437 | 16,500 | 16,600 | 16,700 | 16,559 |
| Diluted shares outstanding | 5,683 | 7,257 | 11,153 | 12,992 | 13,179 | 16,475 | 16,400 | 14,619 | 16,437 | 16,500 | 16,600 | 16,700 | 16,559 |
| 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. | 1,213 | 2,390 | 2,000 | 700 | 750 | 800 | 950 | 3,200 | 1,100 | 1,100 | 1,100 | 1,100 | 4,400 |
| Cash Flow/share | (\$1.82) | (\$2.06) | (\$2.30) | (\$0.32) | (\$0.23) | (\$0.49) | (\$0.27) | (\$1.34) | (\$0.26) | (\$0.45) | (\$0.46) | (\$0.47) | (\$1.65) |
| EBITDA/share | (\$1.82) | (\$2.06) | (\$2.30) | (\$0.32) | (\$0.23) | (\$0.49) | (\$0.27) | (\$1.34) | (\$0.26) | (\$0.45) | (\$0.46) | (\$0.47) | (\$1.65) |

Balance Sheets

(\$000s)

| Assets: | 12/31/18 | 3/31/19 |
|---|----------|----------|
| Current Assets | | |
| Cash and equivalents | \$14,724 | \$16,750 |
| Marketable securities | 32,914 | 29,857 |
| Prepaid expenses and other current assets | 1,649 | 1,218 |
| Total current | 49,287 | 47,825 |
| Marketable securities, long-term | 16,804 | 10,873 |
| Property and equipment, net | 2,319 | 2,307 |
| Other long-term assets | 401 | 3,347 |
| Total Assets | \$68,811 | \$64,352 |
| Liabilities: | | |
| Current liabilities | | |
| Accounts payable | \$1,880 | \$1,986 |
| Accrued expenses and other current | 2,367 | 1,962 |
| Total current | 4,247 | 3,948 |
| Warrant liabilities | 8,511 | 5,690 |
| Other long-term | 193 | 3,168 |
| Total liabilities | 12,951 | 12,806 |
| Stockholders' equity | 55,860 | 51,546 |
| TOTAL LIAB & EQ | \$68,811 | \$64,352 |

Quarterly Earnings Comparisons

| | March | June | September | December | Total |
|-------------------------------------|----------|----------|-----------|----------|----------|
| Revenues (in \$Mill) | | | | | |
| 2015 | 250 | 331 | 260 | 105 | 946 |
| 2016 | 280 | 72 | 0 | 0 | 352 |
| 2017 | 0 | 0 | 0 | 0 | 0 |
| 2018 | 0 | 0 | 0 | 0 | 0 |
| 2019E | 0 | 0 | 0 | 0 | 0 |
| Earnings per Share (diluted) | | | | | |
| 2015 | (\$0.37) | (\$0.39) | (\$0.59) | (\$0.68) | (\$2.04) |
| 2016 | (\$1.11) | (\$0.62) | (\$0.53) | (\$0.28) | (\$2.39) |
| 2017 | (\$0.69) | (\$0.93) | (\$0.85) | (\$0.11) | (\$2.48) |
| 2018 | (\$0.37) | (\$0.29) | (\$0.53) | (\$0.33) | (\$1.56) |
| 2019E | (\$0.32) | (\$0.52) | (\$0.53) | (\$0.54) | (\$1.92) |

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

Important Disclosures:

Price Chart:



Price target and ratings changes over the past 3 years:

Updated – Buy – August 7, 2017 – Price Target \$27.50
 Updated – Buy – May 13, 2019 – Price Target adjusted to \$14.50

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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.

The following chart reflects the range of current research report ratings for all companies followed by the analysts of the Firm. The chart also reflects the research report ratings relating to those companies for which the Firm has performed investment banking services.

| Ratings Distribution | Company Coverage | | Investment Banking | |
|----------------------------|------------------|-------------|--------------------|-------------|
| | # of Companies | % of Total | # of Companies | % of Totals |
| Market Outperform (Buy) | 37 | 86% | 10 | 27% |
| Market Perform (Neutral) | 6 | 14% | 0 | 0% |
| Market Underperform (Sell) | 0 | 0% | 0 | 0% |
| Total | 43 | 100% | 10 | 23% |

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