

## Jaguar (NASDAQ/JAGX)

June 4, 2019

### Neutral; Buys Some Time but At What Cost?

Jaguar announced a one-year extension for the \$10.5M in debt, (that was previously due December 2019). Chicago Venture Partners (CVP), which acquired the debt, agreed to reset the maturity out an additional year for a fee of \$2.3M. According to the company's recent 10Q filing, Jaguar closed the period with just \$2.5M in cash.

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### Investment Highlights

**We Recently (May 30, 2019) Lowered Our Rating from Buy to Neutral.** Our decision was driven by a combination of factors which includes poor performance in the quarter, (low revenues and high expenses), the fact that the company is basically out of cash, management's plans to reverse the stock (70:1) and then try to raise capital, to recapitalize the company.

**News That the Debt has Been Pushed Out a Year is Positive but the Cost, \$2.5M, is high.** After all, we don't believe CVP has many options, however, apparently Jaguar does not either. In short, the company is now almost out of cash and must return to the markets to raise capital. Our concern is that the company has little to no leverage and will end up accepting excessive dilution to raise capital, and is likely to not raise enough capital, to achieve "critical mass" to drive Mytesi's market share.

**As We Mentioned in Our Downgrade...We always knew that Jaguar was a high-risk story and constrained by its limited capital.** Our hope was, based on the attributes of Mytesi, that they could demonstrate building revenues and climb their way out of cash constraints. 1Q19 was supposed to be a "break-out" quarter which hasn't happened. As a result, we believe it was prudent to move from a Buy rating to Neutral and remove our price target until we have better clarity on how the company will finance its operations and develop its lead drug, Mytesi.

**1Q19 Results Were Below Expectations.** Mytesi sales were \$1.590M versus \$1.596 in the prior quarter, sequentially down. Expenses were higher than we anticipated. G&A was \$3.5M, COGS ran close to 50% of sales and marketing cost were essentially equal to sales. Our thesis was predicated in part on the company demonstrating they could achieve traction with Mytesi which hasn't happened. The cash balance of the company at the end of March was just \$2.5M. Management related to us that the "capital crisis" is the central issue at hand. Our understanding is that the company has arranged some intermediate financing (up to \$5.5M) which management believes will allow operations to continue long enough to reverse the stock (70 to 1) and recapitalize the company with a raise in July. Given the shift in the thesis, we believe it was best to lower our rating to Neutral and remove our price target while Jaguar works its way through the recapitalization process. Our fundamentally positive opinion on Mytesi hasn't changed but without promotion resources, we are unsure of how the revenue potential can be realized in both HIV and other indications.

Current Price

\$0.17

Estimates	F2017A	F2018A	F2019E
Revenues (\$000s)	\$ 4,361	\$ 4,416	\$ 15,163
1Q March	\$ 822	\$ 804	\$ 1,590
2Q June	\$ 897	\$ 884	\$ 3,085
3Q September	\$ 1,100	\$ 1,132	\$ 4,542
4Q December	\$ 1,542	\$ 1,596	\$ 5,946
	F2017A	F2018A	F2019E
EPS (diluted)	\$ (0.66)	\$ (1.74)	\$ (0.37)
1Q March	\$ (0.33)	\$ (0.78)	\$ (0.25)
2Q June	\$ (0.12)	\$ (0.44)	\$ (0.05)
3Q September	\$ 0.07	\$ (0.51)	\$ (0.04)
4Q December	\$ (0.27)	\$ (0.02)	\$ (0.03)
EBITDA/Share	(\$0.79)	(\$1.67)	(\$0.21)
EV/EBITDA (x)	14	5	40
Stock Data			
52-Week Range	\$0.12	-	\$2.50
Shares Outstanding (mil.)			66.3
Market Capitalization (mil.)			\$11
Enterprise Value (mil.)			\$8
Debt to Capital			0%
Book Value/Share			\$2.46
Price/Book			2.8
Average Three Months Trading Volume (K)			1,859
Insider Ownership			30.6%
Institutional Ownership			8.5%
Short interest (mil.)			0.6%
Dividend / Yield			\$0.00/0.0%



Update - June 4, 2019 - Neutral

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**Valuation.** Our valuation approach is to model revenues for Mytesi in HIV-related diarrhea followed by CTD in 2021, account for risk and dilution and project a net present value. We had assumed that 2019 would be a break-out year for Mytesi and that just has not happened, which puts our estimates at risk. These concerns coupled with a tight cash balance, a pending reverse stock split and a planned recapitalization make forecasting a fair value with any degree of confidence, near impossible for us. As a result, we have stepped our rating to Neutral and removed our price target.

### **Risk Analysis**

In addition to the typical risks associated with micro-capitalized biotechnology and specialty pharmaceutical companies, we see potential risks specific to Jaguar as follows:

**Clinical and regulatory risk.** Mytesi is currently approved for the treatment of diarrhea in HIV patients. The company is seeking approval for additional indications such as cancer therapy-induced diarrhea. There is no assurance the product, Mytesi, or a second-generation version will be approved for any additional indications and even if approved, will be reimbursed by insurance or successfully commercialized.

**Commercial risk.** Initially, the focus of the company is on successfully developing Mytesi sales in HIV associated chronic diarrhea. We can make no assurances that the company will be able to achieve a critical level of market share to become profitable in this indication and or in additional planned indications.

**Employee risk.** Jaguar is a small company with a number of key employees. The success of the company will depend, to a great extent, upon the experience, abilities and continued services of its senior officers, sales staff, and key scientific personnel.

**Financial risk.** The company may need to raise capital in the marketplace, and there can be no assurances that the company will be able to successfully raise capital and do so on favorable terms.

**Intellectual property risk.** The company may have to defend its patents and technical know-how, and there can be no assurances that the patents will not be infringed or will be held as valid if challenged, and the company may infringe on third party's patents.

**Salesforce risk.** Jaguar has a small salesforce and is currently contracting with RedHill Biopharma as part of a co-promotion strategy. There can be no assurances that this strategy will remain enforced in the future.

**Reimbursement and insurance payment risk.** Insurance payment for products may be an additional hurdle for adoption.

**Exhibit 1. Income Statement**

Jaguar Health Inc.: Income Statement (\$000)																				
YE December 31	2017A	1Q18A	2Q18A	3Q18A	4Q18A	2018A	1Q19A	2Q19E	3Q19E	4Q19E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
<b>Revenue:</b>																				
Product Revenue	1,485																			
Mytesi - HIV-induced diarrhea		627	884	1,132	1,596	4,239	1,590	1,500	1,600	1,700	6,390	14,362	30,163	39,563	49,783	60,864	64,653	68,623	72,784	76,099
Mytesi - Cancer therapy diarrhea		-	-	-	-	-	-	-	-	-	-	-	5,961	12,428	19,433	27,010	35,196	51,366	68,844	79,740
Mytesi - Irritable bowel syndrome- Diarrhea		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Mytesi - Inflammatory bowel disease- Diarrhea		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equilevia - EGUS		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net revenue</b>	<b>1,485</b>	<b>627</b>	<b>884</b>	<b>1,132</b>	<b>1,596</b>	<b>4,239</b>	<b>1,590</b>	<b>1,500</b>	<b>1,600</b>	<b>1,700</b>	<b>6,390</b>	<b>14,362</b>	<b>36,124</b>	<b>51,991</b>	<b>69,217</b>	<b>87,875</b>	<b>99,849</b>	<b>119,989</b>	<b>141,628</b>	<b>155,839</b>
<b>Collaborative revenue:</b>																				
Collaborative revenue	2,876	177	-	-	-	177	-	85	92	96	354	375	396	419	443	469	495	524	554	586
Canalevia Royalties - Canine Diarrhea		-	-	-	-	-	-	85	92	96	354	375	396	419	443	469	495	524	554	586
<b>Total Collaborative Revenue</b>	<b>2,876</b>	<b>177</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>177</b>	<b>-</b>	<b>85</b>	<b>92</b>	<b>96</b>	<b>354</b>	<b>375</b>	<b>396</b>	<b>419</b>	<b>443</b>	<b>469</b>	<b>495</b>	<b>524</b>	<b>554</b>	<b>586</b>
<b>Total Revenue</b>	<b>4,361</b>	<b>804</b>	<b>884</b>	<b>1,132</b>	<b>1,596</b>	<b>4,416</b>	<b>1,590</b>	<b>1,585</b>	<b>1,692</b>	<b>1,796</b>	<b>6,663</b>	<b>14,737</b>	<b>36,520</b>	<b>52,410</b>	<b>69,660</b>	<b>88,343</b>	<b>100,344</b>	<b>120,513</b>	<b>142,182</b>	<b>156,425</b>
<b>Expenses:</b>																				
Costs of Goods Sold	880	464	608	737	957	2,766	865	420	448	476	1,789	2,154	5,057	6,759	8,306	8,787	8,986	9,599	11,330	12,467
%COGS		28%	28%	28%	28%	28%	54%	28%	28%	28%	28%	15%	14%	13%	12%	10%	9%	8%	8%	8%
Research and Development	4,269	758	1,605	1,481	1,311	5,155	1,421	1,485	1,608	1,670	6,186	8,500	8,585	8,671	8,758	8,845	8,934	9,023	9,113	9,204
%R&D																				
General and Administrative	11,248	2,998	3,060	2,704	3,515	12,277	3,513	1,800	1,950	2,025	7,500	7,650	7,803	7,959	8,118	8,281	8,446	8,615	8,787	8,963
%G&A																				
Sales and Marketing	3,084	1,712	2,690	2,717	2,712	9,832	1,565	1,800	1,950	2,025	7,500	4,309	4,395	4,483	15,000	15,300	15,606	15,918	16,236	16,561
Impairment (goodwill and intangibles)	19,127	-	-	-	5,211	5,211	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Expenses</b>	<b>38,608</b>	<b>5,933</b>	<b>7,963</b>	<b>7,638</b>	<b>13,706</b>	<b>35,240</b>	<b>7,365</b>	<b>5,505</b>	<b>5,956</b>	<b>6,196</b>	<b>22,975</b>	<b>22,613</b>	<b>25,840</b>	<b>27,872</b>	<b>40,182</b>	<b>41,213</b>	<b>41,972</b>	<b>43,155</b>	<b>45,467</b>	<b>47,196</b>
<b>Operating Income (Loss)</b>	<b>(34,247)</b>	<b>(5,128)</b>	<b>(7,079)</b>	<b>(6,506)</b>	<b>(12,110)</b>	<b>(30,824)</b>	<b>(5,775)</b>	<b>(3,920)</b>	<b>(4,264)</b>	<b>(4,400)</b>	<b>(16,312)</b>	<b>(7,876)</b>	<b>10,680</b>	<b>24,539</b>	<b>29,478</b>	<b>47,130</b>	<b>58,372</b>	<b>77,357</b>	<b>96,714</b>	<b>109,229</b>
Interest expense	(1,210)	(602)	(712)	(872)	(443)	(2,629)	(547)	-	-	-	(547)	-	-	-	-	-	-	-	-	-
Other income (expense)	89	298	15	10	(7)	316	6	-	-	-	6	-	-	-	-	-	-	-	-	-
Change in fair value of warrants	695	(264)	118	26	450	331	(46)	-	-	-	(46)	-	-	-	-	-	-	-	-	-
Loss on extinguishment of debt	(477)	-	-	-	(544)	(544)	(1,942)	-	-	-	(1,942)	-	-	-	-	-	-	-	-	-
Gain on Sale	-	-	-	1,204	1,204	1,204	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Other Income</b>	<b>(903)</b>	<b>(568)</b>	<b>(578)</b>	<b>368</b>	<b>(544)</b>	<b>(1,322)</b>	<b>(2,529)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,529)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Pretax Income</b>	<b>(35,150)</b>	<b>(5,697)</b>	<b>(7,657)</b>	<b>(6,138)</b>	<b>(12,654)</b>	<b>(32,146)</b>	<b>(8,304)</b>	<b>(3,920)</b>	<b>(4,264)</b>	<b>(4,400)</b>	<b>(18,841)</b>	<b>(7,876)</b>	<b>10,680</b>	<b>24,539</b>	<b>29,478</b>	<b>47,130</b>	<b>58,372</b>	<b>77,357</b>	<b>96,714</b>	<b>109,229</b>
Prefred Dividend	-	(995)	(995)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes on income	13,181	-	-	-	-	-	-	-	-	-	-	-	1,227	2,358	4,713	7,005	10,056	14,507	16,384	16,384
Tax Rate													5%	8%	10%	12%	13%	15%	15%	15%
<b>GAAP Net Income (Loss)</b>	<b>(21,969)</b>	<b>(6,692)</b>	<b>(8,652)</b>	<b>(6,138)</b>	<b>(12,654)</b>	<b>(32,146)</b>	<b>(8,304)</b>	<b>(3,920)</b>	<b>(4,264)</b>	<b>(4,400)</b>	<b>(18,841)</b>	<b>(7,876)</b>	<b>10,680</b>	<b>24,539</b>	<b>27,120</b>	<b>42,417</b>	<b>51,367</b>	<b>67,301</b>	<b>82,207</b>	<b>92,844</b>
<b>Total comprehensive loss</b>	<b>(21,969)</b>	<b>(6,692)</b>	<b>(8,652)</b>	<b>(6,138)</b>	<b>(12,654)</b>	<b>(32,146)</b>	<b>(8,304)</b>	<b>(3,920)</b>	<b>(4,264)</b>	<b>(4,400)</b>	<b>(18,841)</b>	<b>(7,876)</b>	<b>10,680</b>	<b>24,539</b>	<b>27,120</b>	<b>42,417</b>	<b>51,367</b>	<b>67,301</b>	<b>82,207</b>	<b>92,844</b>
<b>GAAP-EPS</b>	<b>(0.61)</b>	<b>(0.78)</b>	<b>(0.76)</b>	<b>(0.51)</b>	<b>(0.14)</b>	<b>(2.19)</b>	<b>(0.24)</b>	<b>(0.08)</b>	<b>(0.09)</b>	<b>(0.09)</b>	<b>(0.49)</b>	<b>(0.15)</b>	<b>0.19</b>	<b>0.44</b>	<b>0.49</b>	<b>0.76</b>	<b>0.92</b>	<b>1.20</b>	<b>1.46</b>	<b>1.64</b>
GAAP-EPS (Dil)	(0.66)	(0.78)	(0.44)	(0.51)	(0.02)	(1.74)	(0.25)	(0.07)	(0.08)	(0.08)	(0.48)	(0.14)	0.18	0.41	0.46	0.71	0.86	1.12	1.36	1.53
Wgtd Avg Shrs (Bas) -	43,436	8,631	11,375	12,062	26,655	14,681	34,524	49,559	49,608	49,658	45,837	53,536	55,004	55,224	55,446	55,668	55,891	56,115	56,339	56,565
Wgtd Avg Shrs (Dil) -	43,436	8,631	19,507	12,062	33,534	18,433	33,568	53,601	53,655	53,708	48,633	57,597	59,081	59,318	59,555	59,794	60,033	60,274	60,515	60,758

Source: Company Reports and Dawson James

Source: Dawson James estimates.

Companies mentioned in this report:

RedHill BioPharma (RDHL) Not Rated.

**Important Disclosures:**

**Price Chart:**



Price target and ratings changes over the past three years:

- Initiated – Buy – January 3, 2019 – Price Target \$1.0
- Updated – Buy May 21, 2019 – Price Target \$1.0
- Rating Changed - Neutral – May 30, 2019 – Price Target NA
- Updated - Neutral – June 4, 2019 – Price Target NA

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	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	36	84%	10	28%
Market Perform (Neutral)	7	16%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	43	100%	10	23%

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