

DelMar (NASDAQ/DMPI)

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BUY: VAL-083; First Patient Treated MD Anderson Center

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Delmar announced that the first patient has been treated in the adjuvant (pre-temozolomide maintenance) trial arm of VAL-083's Phase 2 study in MGMT-unmethylated glioblastoma multiforme (GBM). The study is being conducted at the University of Texas MD Anderson Cancer Center (MDACC). This recently-approved arm of the study will enroll up to 24 newly-diagnosed patients who have undergone surgery and chemoradiation with temozolomide (TMZ) but will now receive VAL-083 in place of standard of care TMZ for adjuvant therapy.

Investment Highlights

- Why is this important? Adding the adjuvant arm to the study is a game changer, in our opinion. The study can now provide early disease data on VAL-083 which is in contrast to those patients enrolling in the Company's original recurrent trial arm of the MDACC clinical study who have typically been heavily pre-treated with TMZ prior to disease recurrence).
- We note that in the recurrent setting, the trial (was previously) approved for up to 35 additional patients to this recurrent GBM study at a dose of 30 mg/m², allowing for a total of up to 83 patients to be enrolled. To date, 56 recurrent patients have been enrolled. DelMar is actively enrolling patients for both trial arms of the clinical study at MDACC.
- **As a reminder, the U.S. trial...is evaluating VAL-083 in MGMT-unmethylated patients in the Recurrent, Avastin naïve GBM (rGBM), post temozolomide failure setting. The primary endpoint of the trial is Median Overall Survival (mOS) vs. historical control (Lomustine at 7.2 months). As of May 5, of this year had enrolled 51 of 83 patients in the recurrent GBM study.**
 - Enrollment has been initiated for both the maintenance stage GBM arm (n=24) and the recently approved arm (described above). The opportunity (in maintenance) is to validate VAL 083 in GBM patients post radiation. The primary endpoint is progression free survival (PFS) vs. historical control (TMZ PFS at only 6.9 months) for MGMT un-methylated patients.
 - Trial Status: As mentioned, 56 of up to 83 planned recurrent patients have been enrolled in the initial study arm. Per investigator assessment at the end of two cycles of therapy: 9/35 (25.7%) patients initially receiving 40 mg/m² exhibited Stable Disease per investigator assessment at the end of cycle two. 4/12 (33.3%) patients initially receiving 30 mg/m² exhibited Stable Disease per investigator assessment at the end of cycle two.

Current Price	\$1.25
Price Target	\$4.00

Estimates	F2018A	F2019E	F2020E
Expenses (\$000s)	\$ 11,175	\$ 6,871	\$ 5,781
1Q March	\$ 2,679	\$ 2,006	\$ 1,387
2Q June	\$ 3,154	\$ 1,822	\$ 1,445
3Q September	\$ 2,935	\$ 1,671	\$ 1,445
4Q December	\$ 2,407	\$ 1,372	\$ 1,503

	F2018A	F2019E	F2020E
EPS (diluted)	\$ (0.07)	\$ (0.11)	\$ (0.09)
1Q March	\$ (0.09)	\$ (0.04)	\$ (0.02)
2Q June	\$ 0.08	\$ (0.02)	\$ (0.02)
3Q September	\$ (0.04)	\$ (0.02)	\$ (0.02)
4Q December	\$ (0.03)	\$ (0.02)	\$ (0.02)

EBITDA/Share	(\$0.53)
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EV/EBITDA (x)	0.0
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Stock Data

52-Week Range	\$1.18 - \$8.50
Shares Outstanding (mil.)	3.8
Market Capitalization (mil.)	\$5
Enterprise Value (mil.)	\$3
Debt to Capital	0%
Book Value/Share	\$0.11
Price/Book	12
Average Three Months Trading Volume (K)	64
Insider Ownership	4.7%
Institutional Ownership	13.7%
Short interest (mil.)	4.1%
Dividend / Yield	\$0.00/0.0%



Update - July 14, 2019 - Buy - Price Target \$4.00

- **The China Trial.** Sun Yat sen University Cancer Center hopes to evaluate the safety and efficacy of VAL 083 for n=30 newly diagnosed MGMT unmethylated GBM patients vs. historical controls (TMZ 6.9 months). As of May 17, of this year, the study has enrolled 18 of 30 patients. Data thus far is early but positive. For the fifteen patients who have received at least one assessment, eight patients were assessed with a best response of "Complete Response" (8/15, 53.3% CR) and seven patients were assessed with a best response of "Stable Disease" (7/15, 46.7% SD).

Valuation. Our valuation is driven by our revenue projections for VAL-083 for its main indication in Glioblastoma Multiforme. We do not model any revenues from this program until 2024 and project our model through the year 2030. Our models also factor in funding (dilution) using a fully diluted 2030 share count. We triangulate FCFE, discounted EPS, and sum-of-the-parts models. We then average and equally weight each model to derive an NPV, which is rounded to the nearest whole number to derive our target price. Investors should recognize that this modeling exercise, which models for ten years, while projected based on the current data and estimates, is limited in its ability to predict a 12-month target. The price of the stock will ultimately be driven near term by factors such as news flow, early trial data, and cyclic concerns of financings (dilution).

Exhibit 1. Free Cash Flow Model.

Average \$		4.00											
Price Target \$		3											
Year		2019											
DCF Valuation Using FCF (mln):													
Units ('000)	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	20230E
EBIT	(11,138)	(6,825)	(5,781)	(5,839)	(5,897)	14,066	58,404	185,855	382,390	523,446	667,588	821,801	996,331
Tax Rate	0%	0%	0%	0%	5%	10%	20%	22%	24%	28%	29%	30%	31%
EBIT(1-t)	(11,138)	(6,825)	(5,781)	(5,839)	(5,603)	12,659	46,724	144,967	290,617	376,881	473,988	575,261	687,469
CapEx	-	(90)	(120)	(120)	(120)	(120)	(120)	(120)	(120)	(120)	(120)	(120)	(120)
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in NWC	-	-	-	-	-	-	-	-	-	-	-	-	-
FCF	(11,138)	(6,915)	(5,901)	(5,959)	(5,723)	12,539	46,604	144,847	290,497	376,761	473,868	575,141	687,349
PV of FCF	(6,591)	(3,148)	(2,066)	(1,605)	(1,186)	1,998	5,713	13,859	21,072	21,023	44,686	41,720	38,353
Discount Rate	30%												
Long Term Growth Rate	1%												
Terminal Cash Flow	2,393,869												
Terminal Value YE2030	133,574.49												
NPV	313,794												
NPV-Debt	-												
Shares out (thousands)	94,612	2030E											
NPV Per Share	\$	3											
Source: Dawson James													

Source: Dawson James

Exhibit 2. Discounted-EPS Model.

Current Year	2019
Year of EPS	2030
Earnings Multiple	10
Discount Factor	30%
Selected Year EPS	\$ 7.26
NPV	\$ 4
Source: Dawson James	

Discount Rate and Earnings Multiple Varies, Year is Constant							
2030 EPS							
Earnings Multiple		5%	10%	15%	20%	25%	30%
		1	\$4.25	\$2.55	\$1.56	\$0.98	\$0.62
5	\$21.24	\$12.73	\$7.81	\$4.89	\$3.12	\$2.03	
10	\$42.48	\$25.46	\$15.62	\$9.78	\$6.24	\$4.05	
15	\$63.72	\$38.19	\$23.42	\$14.67	\$9.36	\$6.08	
20	\$84.95	\$50.93	\$31.23	\$19.56	\$12.48	\$8.11	
25	\$106.19	\$63.66	\$39.04	\$24.44	\$15.60	\$10.13	
30	\$127.43	\$76.39	\$46.85	\$29.33	\$18.72	\$12.16	
35	\$148.67	\$89.12	\$54.65	\$34.22	\$21.84	\$14.19	

Source: Dawson James

Exhibit 3. Sum-of-the-Parts Model.

Company: DMPI	LT Gr	Discount Rate	Yrs. to Mkt	% Success	Peak Sales MMs	Term Val
VAL-083 USA	1%	30%	7	70%	\$878	\$3,026
NPV						\$1.78
VAL-083 China	1%	30%	5	70%	\$713	\$2,458
NPV						\$2.45
Net Margin						50%
MM Shrs OS (2030E)						95
Total						\$4

Source: Dawson James

Risk Analysis

Clinical and regulatory risk. DelMar Pharmaceuticals is currently in Phase 2 clinical trials in both applications of its pipeline product focused on MGMT-unmethylated GBM. There is no assurance that their product will be approved for any additional indications and even if approved, will be reimbursed by insurance or successfully commercialized.

Commercial risk. The focus of the company is on successfully developing their products and eventually bring them to the mass market. It is important to note that the market opportunity in MGMT-unmethylated GMB is large and if successful VAL-083 may be introduced to the market for multiple cancer applications. 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. DelMar Pharmaceuticals has an experienced management team in their President and CEO, CSO, and CFO. DelMar Pharmaceuticals plans to bring their proposed products to reality. DelMar Pharmaceuticals' success 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 relatively soon, 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.

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

Exhibit 4. Income Statement

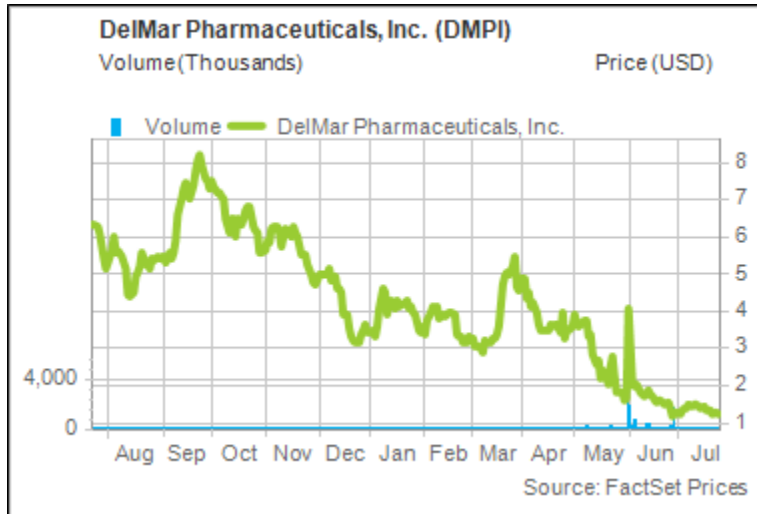
Delmar Pharmaceuticals Inc. (DMP): Income Statement ('000)	6. 2018 YE	1Q19A	2Q19A	3Q19A	4Q19E	6. 2019 YE	6. 2020 YE	6. 2021 YE	6. 2022 YE	6. 2023 YE	6. 2024 YE	6. 2025 YE	6. 2026 YE	6. 2027 YE	6. 2028 YE	6. 2029 YE	6. 2030 YE
FYE-Jun 30	6.2018	3Q18A	4Q18A	1Q19A	2Q19E	6.2019	6.2020E	6.2021	6.2022	6.2023	6.2024	6.2025	6.2026	6.2027	6.2028	6.2029	6.2030
Revenue (\$000)																	
VAL-083 U.S.										0	0	27,397	101,459	204,947	329,313	456,146	614,277
VAL-083 China										22,244	70,657	184,931	329,298	382,597	418,449	463,024	498,876
License Fees and Royalties (China sales)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Product Sales										22,244	70,657	212,327	430,758	587,544	747,762	919,170	1,113,153
Total Revenue										22,244	70,657	212,327	430,758	587,544	747,762	919,170	1,113,153
Expenses																	
Cost of Goods Sold	-	-	-	-	-	-	-	-	-	2,224	7,066	21,233	43,076	58,754	74,776	91,917	111,315
COGS % of revenue								10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Sales, General and administrative expenses	4,042	986	875	936	572	2,200	2,244	2,266	2,289	2,312	2,335	2,358	2,382	2,406	2,430	2,454	2,479
SG&A % of revenue																	
Research and Development	7,133	1,019	947	736	800	3,502	3,537	3,573	3,608	3,644	3,681	3,718	3,755	3,792	3,830	3,869	3,907
R&D % of revenue																	
Non-GAAP Adj																	
Total expenses	11,175	2,005.59	1,822.13	1,671	1,372	6,871	5,781	5,839	5,897	8,181	12,256	26,475	48,371	64,102	80,178	97,372	116,825
Oper. Inc. (Loss)	(11,175)	(2,006)	(1,822)	(1,671)	(1,372)	(6,871)	(5,781)	(5,839)	(5,897)	14,063	58,401	185,852	382,387	523,442	667,585	821,798	996,328
Total non-operating income	36	14	12	9	36	-	-	-	-	-	-	-	-	-	-	-	-
Pretax Income	(11,138)	(1,991)	(1,810)	(1,652)	(1,372)	(6,825)	(5,781)	(5,839)	(5,897)	14,066	58,404	185,855	382,390	523,446	667,588	821,801	996,331
Income Tax Benefit (Provision)		-	-	-	-	-	-	-	(295)	1,407	11,681	40,888	91,774	146,565	193,601	246,540	308,863
Tax Rate									5%	10%	20%	22%	24%	28%	29%	30%	31%
GAAP Net Income (loss)	(11,281)	(1,991)	(1,810)	(1,652)	(1,372)	(6,825)	(5,781)	(5,839)	(5,603)	12,659	46,724	144,967	290,617	376,881	473,988	575,261	687,469
Preferred stock dividend	176.24	36.09	16.19														
Net and comprehensive loss available to common stockholders	(11,315)	(2,027)	(1,826)	(1,652)	(1,372)	(6,825)	(5,781)	(5,839)	(5,603)	12,659	46,724	144,967	290,617	376,881	473,988	575,261	687,469
GAAP-EPS	(0.55)	(0.09)	(0.07)	(0.05)	(0.04)	(0.25)	(0.14)	(0.13)	(0.13)	0.28	1.04	3.20	6.39	8.26	10.34	12.50	14.88
Non GAAP EPS (dil)	(0.55)	(0.09)	0.08	(0.04)	(0.03)	(0.07)	(0.11)	(0.09)	(0.08)	0.18	0.63	1.87	3.60	4.49	5.42	6.33	7.26
Wgtd Avg Shrs (Bas) - '000s	20,861	22,969	24,242	34,266	34,301	28,944.63	41,894	44,569	44,748	44,927	45,107	45,288	45,469	45,651	45,834	46,018	46,202
Wgtd Avg Shrs (Dil) - '000s	20,861	22,969	24,242	44,266	44,311	33,947	56,909.08	66,127	68,812	71,606	74,513	77,539	80,687	83,964	87,373	90,920	94,612

Source: Dawson James estimates.

Companies mentioned in this report:

Important Disclosures:

Price Chart:



Price target and ratings changes over the past three years:

- Initiation - June 6, 2017 – Buy – Price target 20% (12-18 months)
- Update – August 8, 2017 – Buy – Price target \$6.60
- Transfer – July 11, 2019 - Buy - \$4.00
- Update – July 15, 2019 – Buy \$4.00
- Update – July 24, 2019 – Buy \$4.00

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	# of Companies	% of Total	# of Companies	% of Totals
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Market Perform (Neutral)	7	15%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	48	100%	12	25%

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