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DelMar (NASDAQ/DMPI)

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BUY: Adgero Call Reveals the Light Behind the Strategy

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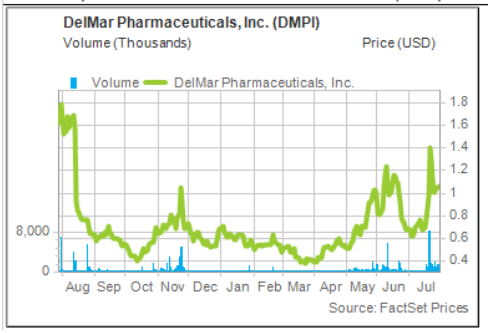
Recall that DelMar announced an agreement with Adgero to merge as one company. We see Adgero as diversifying risk for DelMar. The company brings a Phase 3 photodynamic therapy (REM-001) for CMBC (breast cancer). During the Q&A on last week's update call, there was a lot of discussion around the clinical trial designs for both REM-001 as well as the positive implications of the GCAR study. For example, we learned that, on significant GCAR study outcomes, DelMar could be in a position to file for approval for VAL-083. We also learned that the endpoint for the REM-001 is to be related to the number of lesions versus survival, consistent with what has been seen in the current Phase 2 data sets.

Current Price	**$1.06**
Price Target	**$4.00**

Estimates	F2018A	F2019A	F2020E
Expenses ($000s)	$ 11,175	$ 8,398	$ 7,595
1Q March	$ 2,679	$ 2,006	$ 1,635
2Q June	$ 3,154	$ 1,822	$ 1,766
3Q September	$ 2,935	$ 1,671	$ 1,976
4Q December	$ 2,407	$ 2,899	$ 2,218
	F2018A	F2019A	F2020E
EPS (diluted)	$ (0.87)	$ (0.63)	$ (0.12)
1Q March	$ (0.09)	$ (0.21)	$ (0.03)
2Q June	$ 0.08	$ (0.15)	$ (0.03)
3Q September	$ (0.04)	$ (0.17)	$ (0.03)
4Q December	$ (0.83)	$ (0.09)	$ (0.03)
EBITDA/Share	($0.53)	($0.09)	($0.07)
EV/EBITDA (x)	0.0	0.0	0.0
Stock Data			
52-Week Range	$0.38	-	$2.59
Shares Outstanding (mil.)			11.5
Market Capitalization (mil.)			$12
Enterprise Value (mil.)			$4
Debt to Capital			0%
Book Value/Share			$0.11
Price/Book			10
Average Three Months Trading Volume (K)			51
Insider Ownership			1.6%
Institutional Ownership			8.9%
Short interest (mil.)			1.4%
Dividend / Yield			$0.00/0.0%



Investment Highlights

Delmar Sees the Light and Moves to Acquire Adgero. Let's look at REM-001. This is a three-part therapy: a laser light source, a light delivery device, and the drug REM-001. REM-001 is a second-generation photosensitizer being developed for unresectable cutaneous metastatic breast cancer (CMBC), a disease that may affect individuals with advanced breast cancer and for which effective treatment options are limited. For this and similar cutaneous applications, the light delivery device is a simple and easy to use fiber optic wand that the physician employs to illuminate the tumor with light directly.

Does it work? In multiple Phase 2 trials in CMBC, which were primarily targeting patients who had previously failed radiation therapy, REM-001 was able to reduce or eliminate a substantial number of the treated CMBC tumors. Specifically, the company's analysis of the data collected from these trials indicates that in approximately 80% of evaluable tumor sites treated with REM-001 therapy, there was a complete response, meaning that follow-up clinical assessments showed no visible evidence of the tumor remaining. Our understanding is that DelMar may run a small Proof of Concept study to validate the results while developing a strategy to initiate and fund pivotal development in CMBC using a similar trial design.

Valuation. Our valuation had been driven by our revenue projections for VAL-083 (GBM), and recently, we added in REM-001 for CMBC. For both indications, we apply a risk cut in our model (30%), which flows into our income statement. We model both products out to 2030. Our models also factor in the increase in shares from the merger as well as future assumed dilution, based on a fully diluted 2030 share count. We triangulate FCFF, 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 calculate our target price.

Risk to our thesis, include the following: (1) commercial; (2) regulatory; (3) clinical; (4) manufacturing; (5) financial; (6) liability; and (7) intellectual property.

Adgero positions DelMar as a company with two pivotal assets. Switching gears to DelMar's "other" asset, VAL-083 in Glioblastoma: Recent news that the Global Coalition for Adaptive Research (GCAR) plans to include VAL-083 in its Glioblastoma Adaptive Global Innovative Learning Environment (GBM AGILE) Study, is positive.

- ***The study is designed*** *as an adaptive clinical trial platform in glioblastoma multiforme (GBM). DelMar plans to utilize the GBM AGILE study to serve as the basis for VAL-083's new drug application (NDA) submission and registration.*
- ***What is it?*** *GBM AGILE is an international effort in newly-diagnosed and recurrent GBM (both indications where VAL-083 has shown activity). The trial utilizes "an FDA approved master protocol" with multiple drugs to be tested simultaneously and over time against a common control arm.*
- ***As an approved registrational study****, results from the VAL-083 arm of GBM AGILE are intended to be utilized to file for FDA approval. This study employs a cost-efficient, adaptive trial design with a Stage 1 (Phase 2) learning and adapting phase and a Stage 2 (Phase 3) expansion and confirmation phase.*
- ***KOL-Led Effort:*** *The effort is led by top-tier key opinion leaders in the GBM field and has the collective support of an international group of more than 130 clinicians, researchers, biostatisticians, imagers, pathologists, leaders from government and industry, and patient advocates.*

Exhibit 1. US GBM Model

Glioblastoma Multiforme (GBM), United States	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Newly diagnosed GBM patients in the **U.S.**	22,850	22,850	22,850	23,880	23,880	23,880	23,880	23,880	23,880	23,880	23,880	23,880	23,880	23,880	23,880	23,880
Growth Rate of incidence	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Prevalence	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000	26,000
Patients eligible for treatment, insurance coverage, 75%	17,138	17,138	17,138	17,910	17,910	17,910	17,910	17,910	17,910	17,910	17,910	17,910	17,910	17,910	17,910	17,910
Frontine treatment, Temozolamide	17,138	17,138	17,138	17,910	17,910	17,910	17,910	17,910	17,910	17,910	17,910	17,910	17,910	17,910	17,910	17,910
Patients failing frontline treatment, refractory GBM	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%	60%
Second line treatment, Avastin	10,283	10,283	10,283	10,746	10,746	10,746	10,746	10,746	10,746	10,746	10,746	10,746	10,746	10,746	10,746	10,746
Patients failing second line treatment, refractory GBM	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%
Patients eligible for third line VAL-083	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Frontline market penetration			0%	0%	0%	0%	0%	0%	0%	5%	10%	20%	25%	30%	35%	40%
Second line market penetration			0%	0%	0%	0%	0%	0%	0%	0%	5%	10%	20%	25%	30%	40%
Third line market penetration			0%	0%	0%	0%	0%	0%	0%	0%	0%	5%	10%	20%	30%	40%
Total patients receiving VAL-083			0	0	0	0	0	0	0	0	537	1,970	3,940	6,269	8,597	11,462
Annual cost of treatment							$ 70,000	$ 70,700	$ 71,407	$ 72,121	$ 72,842	$ 73,571	$ 74,306	$ 75,049	$ 75,800	$ 76,558
Increase in price							1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
VAL-083 revenue, U.S. ($MM)							$ -	$ -	$ -	$ -	$ 39,138	$ 144,942	$ 292,782	$ 470,448	$ 651,637	$ 877,538
Risk adjustment							30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Total Revenue ($MM)							**$ -**	**$ -**	**$ -**	**$ -**	**$ 27,397**	**$ 101,459**	**$ 204,947**	**$ 329,313**	**$ 456,146**	**$ 614,277**

Source: Dawson James estimates, company reports

Exhibit 2. US CMBC Model

CMBC USA	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Newly diagnosed CMBC patients in the **U.S.**	10,000,000	10,000,000	10,000,000	10,001,000	10,002,000	10,003,000	10,004,001	10,005,001	10,006,002	10,007,002	10,008,003	10,009,004	10,010,005	10,011,006	10,012,007	10,013,008
Growth Rate of incidence	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Prevalence (1st, 2nd and 3rd line)	65,000	65,065	65,130	65,195	65,260	65,326	65,391	65,456	65,522	65,587	65,653	65,719	65,784	65,850	65,916	65,982
Market Share			0%	0%	0%	0%	0%	0%	2%	5%	6%	7%	8%	9%	10%	15%
Total patients receiving REM-001			0	0	0	0	0	0	1,310	3,279	3,939	4,600	5,263	5,927	6,592	9,897
Annual cost of treatment							$ 35,000	$ 35,350	$ 35,704	$ 36,061	$ 36,421	$ 36,785	$ 37,153	$ 37,525	$ 37,900	$ 38,279
Increase in price							1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Revenue, U.S. ($MM)							$ -	$ -	$ 46,787	$ 118,256	$ 143,469	$ 169,224	$ 195,528	$ 222,391	$ 249,821	$ 378,858
Risk adjustment							30%	30%	30%	30%	30%	30%	30%	30%	30%	30%
Total Revenue ($MM)							**$ -**	**$ -**	**$ 32,751**	**$ 82,779**	**$ 100,428**	**$ 118,457**	**$ 136,869**	**$ 155,673**	**$ 174,875**	**$ 265,200**

Source: Dawson James estimates, company reports

Valuation. Our valuation is driven by our revenue projections for VAL-083 for its main indication in Glioblastoma Multiforme and now includes REM-001. We do not model any revenues from the GBM program until 2024 and CMBC in 2023. We project our model through the year 2030. Our models factor in funding (dilution) using a fully diluted 2030 share count. We triangulate FCFF, 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 calculate 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, new trial data, and cyclic concerns of financings (dilution).

Exhibit 3. Free Cash Flow Model

Average	$	4.00
Price Target	$	4
Year		2020

DCF Valuation Using FCF (mln):

units ('000)	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	20230E
EBIT	(11,138)	(8,048)	(7,521)	(8,615)	(8,701)	18,501	152,598	262,588	263,994	516,959	621,194	515,074	786,885
Tax Rate	0%	0%	0%	0%	5%	10%	14%	18%	22%	23%	24%	25%	26%
EBIT(1-t)	(11,138)	(8,048)	(7,521)	(8,615)	(8,266)	16,651	131,234	215,322	205,915	398,058	472,108	386,305	582,295
CapEx	-	-	(120)	(120)	(120)	(120)	(120)	(120)	(120)	(120)	(120)	(120)	(120)
Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in NWC													
FCF	(11,138)	(8,048)	(7,641)	(8,735)	(8,386)	16,531	131,114	215,202	205,795	397,938	471,988	386,185	582,175
PV of FCF	(8,568)	(4,762)	(3,478)	(3,058)	(2,259)	3,425	20,895	26,382	19,406	28,866	57,861	36,417	42,230

Discount Rate	30%	
Long Term Growth Rate	1%	
Terminal Cash Flow	2,027,574	
Terminal Value YE2030	147,076.48	
NPV	373,763	
NPV-Debt	-	
Shares out (thousands)	101,666	2030E
NPV Per Share	$ 4	

Source: Dawson James estimates, company reports

Exhibit 4. Discounted-EPS Model

Current Year		2020
Year of EPS		2030
Earnings Multiple		10
Discount Factor		30%
Selected Year EPS	$	5.73
NPV	$	4

Source: Dawson James

Earnings Multiple	Discount Rate and Earnings Multiple Varies, Year is Constant 2030 EPS					
	5%	10%	15%	20%	25%	30%
1	$3.52	$2.21	$1.42	$0.92	$0.61	$ 0.42
5	$17.58	$11.04	$7.08	$4.62	$3.07	$ 2.08
10	$35.16	$22.08	$14.16	$9.25	$6.15	$ 4.15
15	$52.74	$33.12	$21.23	$13.87	$9.22	$ 6.23
20	$70.31	$44.16	$28.31	$18.50	$12.30	$ 8.31
25	$87.89	$55.20	$35.39	$23.12	$15.37	$ 10.39
30	$105.47	$66.24	$42.47	$27.75	$18.45	$ 12.46
35	$123.05	$77.28	$49.54	$32.37	$21.52	$ 14.54

Source: Dawson James estimates

Exhibit 5. Sum-of-the-Parts Model

Company: DMPI	LT Gr	Discount Rate	Yrs. to Mkt	% Success	Peak Sales MM's	Term Val
VAL-083 USA	1%	30%	4	70%	$878	$3,026
NPV						$3.65
VAL-083 China	1%	30%	5	0%	$713	$2,458
NPV						$0.00
REM-001	1%	30%	4	70%	$283	$975
NPV						$1.18
Net Margin						50%
MM Shrs OS (2030E)						102
Total						$5

Source: Dawson James estimates

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 its 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 its products and eventually bringing 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 its President and CEO, CSO, and CFO. DelMar Pharmaceuticals plans to bring its proposed products to reality. DelMar Pharmaceuticals's 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 raise capital and do so on favorable terms successfully.

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 parties' patents.

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

Exhibit 6. Income Statement

Delmar Pharmaceuticals Inc, (DMPI): Income Statement ('000)	6. 2018 YE	6. 2019 A	1Q20A	2Q20A	3Q20A	4Q20E	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	6.2019 A	3Q19A	4Q19A	1Q20A	2Q20E	6.2020E	6.2021	6.2022	6.2023	6.2024	6.2025	6.2026	6.2027	6.2028	6.2029	6.2030
Revenue ($000)																	
REM-001									0	32,751	115,891	167,381	186,146	205,304	242,159	262,312	282,880
VAL-083 U.S.										0	72,335	146,116	129,130	391,263	470,448	332,606	614,277
VAL-083 ROW										-	-	-	-	-	-	-	-
License Fees and Royalties (China sales)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Product Sales	-	-	-	-	-	-	-	-	-	32,751	188,225	313,497	315,276	596,568	712,606	594,919	897,157
Total Revenue	-	-	-	-	-	-	-	-	-	32,751	188,225	313,497	315,276	596,568	712,606	594,919	897,157
Expenses																	
Cost of Goods Sold	-	-	-	-	-	-	-	-	-	3,275	18,823	31,350	31,528	59,657	71,261	59,492	89,716
COGS % of revenue								10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Sales, General and administrative expenses	4,042	4,736	914	1,054	1,078	1,256	4,831	4,879	4,928	4,978	10,000	10,100	10,201	10,303	10,406	10,510	10,615
SG&A % of revenue																	
Research and Development	7,133	3,662	721	712	899	962	3,699	3,736	3,773	6,000	12,000	12,120	12,241	12,364	12,487	12,612	12,738
R&D % of revenue																	
Non-GAAP, Adj																	
Total expenses	11,175	8,398	1,635.10	1,765.94	1,976.36	2,217.76	7,595	8,615	8,701	14,253	35,631	50,912	51,285	79,612	91,416	79,848	110,276
Oper. Inc. (Loss)	(11,175)	(8,398)	(1,635)	(1,766)	(1,976)	(2,218)	(7,595)	(8,615)	(8,701)	18,498	152,594	262,585	263,990	516,955	621,191	515,070	786,881
Change in fair value of derivative liability	60	(434)					-	-	-	-	-	-	-	-	-	-	-
Change in fair value of derivative liability due to change in warrant terms		126															
Issuance of shares to Valent																	
Loss on exchange of warrants																	
Foreign exchange gain	(57)	18	(0)	2	(2)		(1)	-	-	-	-	-	-	-	-	-	-
Interest expense		-	(29)	(28)	(17)		(74)	-	-	-	-	-	-	-	-	-	-
Interest income	33	(61)					-	-	-	-	-	-	-	-	-	-	-
Total non-operating income	36	(350)					-	-	-	-	-	-	-	-	-	-	-
Pretax Income	(11,138)	(8,048)	(1,606)	(1,740)	(1,957)	(2,218)	(7,521)	(8,615)	(8,701)	18,501	152,598	262,588	263,994	516,959	621,194	515,074	786,885
Income Tax Benefit (Provision)		-	-	-	-	-	-	-	(435)	1,850	21,364	47,266	58,079	118,901	149,087	128,768	204,590
Tax Rate									5%	10%	14%	18%	22%	23%	24%	25%	26%
GAAP Net Income (loss)	(11,281)	(8,048)	(1,606)	(1,740)	(1,957)	(2,218)	(7,521)	(8,615)	(8,266)	16,651	131,234	215,322	205,915	398,058	472,108	386,305	582,295
Preferred stock dividend	176.24	80.43	2.05	2.55	1.47												
Net and comprehensive loss available to common stockholders	(11,315)	(8,129)	(1,608)	(1,743)	(1,959)	(2,218)	(7,521)	(8,615)	(8,266)	16,651	131,234	215,322	205,915	398,058	472,108	386,305	582,295
GAAP-EPS	(0.55)	(3.16)	(0.21)	(0.15)	(0.17)	(0.09)	(0.63)	(0.14)	(0.14)	0.27	2.14	3.49	3.33	6.41	7.57	6.17	9.26
Non GAAP EPS (dil)	(0.55)	(3.16)	(0.21)	(0.15)	(0.17)	(0.09)	(0.63)	(0.12)	(0.11)	0.22	1.64	2.58	2.37	4.41	5.03	3.95	5.73
Wgtd Avg Shrs (Bas) - '000s	20,861	2,575	7,539	11,408	11,417	25,000	13,841	60,495	60,873	61,117	61,362	61,608	61,855	62,102	62,351	62,601	62,852
Wgtd Avg Shrs (Dil) - '000s	20,861	2,575	7,539	11,408	11,417	25,000	13,841	71,057	73,942	76,945	80,069	83,320	86,703	90,224	93,887	97,699	101,666

Source: Dawson James estimates, company reports

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
Update – March 1, 2018 – Buy - $6.60
Transfer – July 11, 2019 - Buy - $4.00
Update – July 15, 2019 – Buy $4.00
Update – July 24, 2019 – Buy $4.00
Update – July 31, 2019 – Buy $4.00
Update – August 27, 2019 – Buy $4.00
Update – September 18, 2019 – Buy $4.00
Update – December 2, 2019 – Buy $4.00
Update – February 14, 2020 – Buy $4.00
Update – March 5, 2020 – Buy $4.00
Update – May 5, 2020 – Buy $4.00
Update – May 13, 2020 – Buy $4.00
Update – June 4, 2020 – Buy $4.00
Update – June 10, 2020 – Buy $4.00
Update – June 23, 2020 – Buy $4.00
Update – June 24, 2020 – Buy $4.00
Update – July 30, 2020 – Buy $4.00

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Information about valuation methods and risks can be found in the "VALUATION" and "RISK ANALYSIS" sections of this report.

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Ratings Definitions:

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) **Neutra**l: The analyst believes the price of the stock is fairly valued for the next 12-18 months;
3) **Sel**l: 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.

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	23	85%	4	17%
Market Perform (Neutral)	4	15%	1	25%
Market Underperform (Sell)	0	0%	0	0%
Total	27	100%	5	19%

Analyst Certification:

The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his (their) personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) all Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service-specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.