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Aditxt Therapeutics (NASDAQ: ADTX)

November 18, 2021

BUY: Reports 3Q21; Raises Capital but No revenues Yet, Lowering Price Target to \$4.00 from \$8.00

Aditxt reported the third quarter spending \$6.1M and ending the period with \$5.4M (reflecting raised \$4M in capital). The company also is finalizing an acquisition of AiPharma for access to anti-virals (including Covid). The key question today, why has the stock collapsed? It maybe that the promise of Covid testing related revenues has diminished as the number of vaccinated folks rises. Our model is driven by the potential in diabetes and not covid. Given the fall in the stock, we revise our assumptions around market share penetration and dilution. The net result is our price target falls back to \$4.00 from \$8.00

Investment Highlights

Aditxt Makes an Acquisition: Aditxt entered into a transaction agreement to acquire (a subsidiary of), AiPharma Global. AiPharma develops antiviral therapies across a broad spectrum of infectious diseases. This includes rights to Avigan/Reequonus/Qifenda and all formulations of favipiravir, a broad spectrum oral antiviral drug that targets COVID-19 and other infectious diseases. We have not yet included any revenues or expenses for this program.

Raises Capital: Aditxt closed an underwritten public offering of 2.8M shares of common stock at a public offering price of \$1.50 per share, for gross proceeds of \$4.25 million, before deducting underwriting discounts and offering expenses.

You've been vaccinated, but are you immune? Most tests are binary: I have COVID or I don't, but when it comes to immune status, the question is a bit more complex. Just how immune are we? The Aditxt score report provides feedback to physicians and patients on COVID immunity. The test measures nine markers and shows a range of detected antigen levels. The response is measured and scored against an expected range. One can see not only immune status but the robustness of the immunity. In fact, the Aditxt score may ultimately be predictive of which vaccine you took, if you had prior exposure to COVID, and if a booster is needed.

Valuation: Our valuation for Aditxt is driven by diagnostic testing and principally the expansion of that testing into the type 1 diabetes at-risk testing market as well as Covid. One could argue that a battery of new immune status tests that may be developed by the company represents the future of diagnostics. We have not included in our model the therapeutics potential of the Aditxt business (other than a nominal value in our sum of the parts model) around immune tolerance therapeutics. Our operating model applies a 30% risk cut or 70% probability of success, which is in addition to the 30% risk rate we use in our valuation models: free cash flow to the Firm (FCFF), discounted EPS (dEPS), and Sum-of-the-Parts (SOP). We select 30% for micro-capitalized growth companies and this represents our highest risk rate. The result of these three models is then equal-weighted and averaged and rounded to the nearest whole number to provide a 12-month target price.

Risks to our thesis include: (1) commercial; (2) financial; (3) intellectual property; (4) regulatory and (5) OEM and/or manufacturing. We review these risks in the Risks Analysis section of this report.

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Source: Barron's: We Need to Be Smarter About Covid-19 Immunity by Amro Albanna

Current Price		\$1.10
Price Target		\$4.00
Stock Data		
52-Week Range	\$1.06 -	\$6.73
Shares Outstanding (mil.)	26.9	
Market Capitalization (mil.)	\$30	
Enterprise Value (mil.)	\$19	
Debt to Capital	0%	
Book Value/Share	-\$0.01	
Price/Book	-	
Average Three Months Trading Volume (K)	123	
Insider Ownership	12.8%	
Institutional Ownership	5.4%	
Short interest (mil.)	3.9%	
Dividend / Yield	\$0.00/0.0%	



Exhibit 1. Diabetes Testing Model

Percent Annual Testing of US at Risk Type 1 Diabetes Population Tested	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
U.S. Population - at Risk Type 1	30,000,000	30,000,000	30,300,000	30,603,000	30,909,030	31,218,120	31,530,302	31,845,605	32,164,061	32,485,701	32,810,558
90% Testing (annual)	27,000,000	27,000,000	27,270,000	27,542,700	27,818,127	28,096,308	28,377,271	28,661,044	28,947,655	29,237,131	29,529,502
Market Share of Testing	0%	0%	0%	1%	2%	3%	5%	8%	10%	14%	15%
No. of Tests	0	0	0	275,427	556,363	842,889	1,418,864	2,292,884	2,894,765	4,093,198	4,429,425
Net Margin per test	\$50	\$51	\$51	\$51	\$51	\$51	\$51	\$51	\$51	\$51	\$51
Annual Operating Income (\$M)	0	0	0	14	28	43	72	116	146	207	224
Risk Adjusted	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%
Risk Adjusted Operating Income (\$M)	\$0	\$0	\$0	\$10	\$20	\$30	\$50	\$81	\$102	\$145	\$157

Exhibit 2. Covid Testing Model

Percent Annual Testing of US Population for MaB Immunity	Inputs	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
U.S. Population		330,000,000	330,000,000	333,300,000	336,633,000	339,999,330	343,399,323	346,833,317	350,301,650	353,804,666	357,342,713	360,916,140
10% Testing (annual)		3,300,000	3,300,000	3,333,000	3,366,330	3,399,993	3,433,993	3,468,333	3,503,016	3,538,047	3,573,427	3,609,161
Market Share of Testing		0%	2%	3%	5%	6%	7%	8%	9%	10%	10%	10%
No. of Tests		0	66,000	99,990	168,317	204,000	240,380	277,467	315,271	353,805	357,343	360,916
Net Margin per test		\$30	\$61	\$61	\$61	\$61	\$61	\$61	\$61	\$61	\$61	\$61
Annual Operating Income (\$M)		0	4	6	10	12	15	17	19	21	22	22
Risk Adjusted		70%	70%	70%	70%	70%	70%	70%	70%	70%	70%	70%
Risk Adjusted Operating Income (\$M)		\$0	\$3	\$4	\$7	\$9	\$10	\$12	\$13	\$15	\$15	\$15

Valuation Models: Our valuation for Aditxt is driven by diagnostic testing and principally the expansion of that testing into the type 1 diabetes at-risk testing market as well as Covid. One could argue that a battery of new immune status tests that may be developed by the company represents the future of diagnostics. We have not included in our model the therapeutics potential of the Aditxt business (other than a nominal value in our sum of the parts model) around immune tolerance therapeutics. Our operating model applies a 30% risk cut or 70% probability of success, which is in addition to the 30% risk rate we use in our valuation models: free cash flow to the Firm (FCFF), discounted EPS (dEPS), and Sum-of-the-Parts (SOP). We select 30% for micro-capitalized growth companies and this represents our highest risk rate. The result of these three models is then equal-weighted and averaged and rounded to the nearest whole number to provide a 12-month target price.

Average	\$	4
Price Target	\$	3
Year		2021

DCF Valuation Using FCF (mln):

Units (000 - CndS)	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBIT	(9,149)	(10,879)	(7,683)	(1,811)	6,409	16,532	35,883	64,737	84,952	122,802	133,214
Tax Rate	0%	0%	15%	20%	25%	28%	30%	31%	32%	35%	37%
EBIT(1-t)	(9,149)	(10,879)	(6,530)	(1,449)	4,807	11,903	25,118	44,668	57,767	79,821	83,925
CapEx	-	(27)	-	-	-	-	-	-	-	-	-
Depreciation	318	4,693	-	-	-	-	-	-	-	-	-
Change in NWC	-	-	-	-	-	-	-	-	-	-	-
FCF	(8,831)	(6,413)	(6,530)	(1,449)	4,807	11,903	25,118	44,668	57,767	79,821	83,925
PV of FCF	(11,481)	(6,413)	(5,023)	(857)	2,188	4,168	6,765	9,254	9,206	9,785	7,914
Discount Rate		30%									
Long Term Growth Rate		1%									
Terminal Cash Flow		292,290									
Terminal Value YE2030		27,563									
NPV		64,550									
NPV-Debt		0									
Shares out (thousands)		25,479	2030E								
NPV Per Share	\$	3									

Current Year	2021
Year of EPS	2030
Earnings Multiple	15
Discount Factor	30%
Selected Year EPS	\$ 3.29
NPV	\$ 5

		Discount Rate and Earnings Multiple Varies, Year is Constant					
		2030 EPS					
Earnings Multiple		5%	10%	15%	20%	25%	30%
		2		\$4.25	\$2.79	\$1.87	\$1.28
5		\$10.62	\$6.98	\$4.68	\$3.19	\$2.21	\$ 1.55
10		\$21.23	\$13.97	\$9.36	\$6.38	\$4.42	\$ 3.11
15		\$31.85	\$20.95	\$14.04	\$9.57	\$6.63	\$ 4.66
20		\$42.46	\$27.94	\$18.73	\$12.77	\$8.84	\$ 6.21
25		\$53.08	\$34.92	\$23.41	\$15.96	\$11.05	\$ 7.76
30		\$63.69	\$41.90	\$28.09	\$19.15	\$13.26	\$ 9.32
35		\$74.31	\$48.89	\$32.77	\$22.34	\$15.47	\$ 10.87

Sum of the Parts	LT Gr	Discount Rate	Yrs. to Mkt	% Success	Peak Sales MMs	Term Val
COVID-MaB Testing	1%	30%	1	70%	\$15	\$53
NPV						\$0.78
Diabetes	1%	30%	3	30%	\$224	\$771
NPV						\$2.89
Immune Tolerance Program	1%	30%	6	10%	\$200	\$690
NPV						\$0.39
Net Margin						70%
MM Shrs OS						25
Total						\$4

Risk Analysis

Regulatory Risk. There can be no assurances that the company will be able to secure the required regulatory approvals to support its business.

Commercial risk. The focus of the company is on successfully developing its products and bringing them to the market. Competition may be intense from external players as well as customers who choose to “build it themselves.”

Financial risk. The company may need to raise capital in the marketplace relatively soon. There can be no assurance 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.

OEM and/or manufacturing risk. Original Equipment Manufacturers (OEMs) may decide to make products themselves, and, as such, terminate production contracts before completion, creating revenue shortfalls. Manufacturing risks include the ability to produce and do so in a competitive, timely, and efficient way.

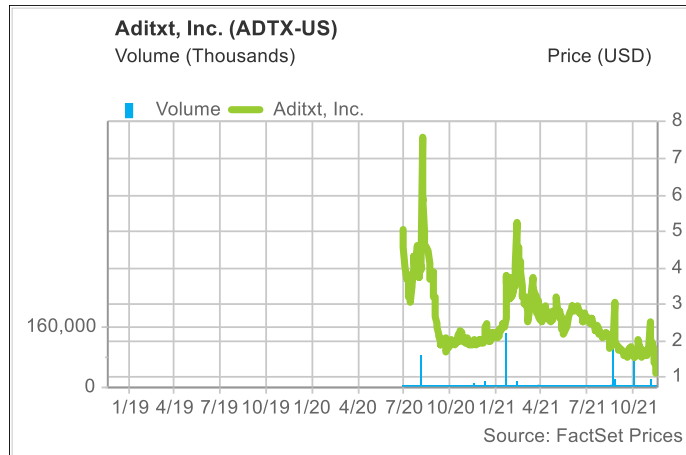
Exhibit 3. Income Statement

ADTX, Inc. Income Statement (\$000)																			
YE Dec. 31	2020A	1Q21A	2Q21A	3Q21A	4Q21E	2021E	1Q22E	2Q22E	3Q22E	4Q22E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenue (\$000)																			
COVID-MaB Test - 10% of US Population and 10% share		-				-	1,018	1,060	1,039	1,124	4,242	7,140	8,654	10,197	11,770	13,374	15,008	15,158	15,310
Type 1 Diabetes MaB Testing							-	-	-	-	-	9,736	19,667	29,796	50,157	81,053	102,330	144,695	156,580
Immune Tolerance Platform Technology																			
Total Revenues							1,018	1,060	1,039	1,124	4,242	16,876	28,321	39,993	61,927	94,427	117,338	159,853	171,890
Expenses																			
COGS							102	106	104	112	424	1,688	2,832	3,999	6,193	9,443	11,734	15,985	17,189
% COGS							10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Gross Profit							916	954	935	1,012	3,817	15,189	25,489	35,994	55,734	84,985	105,605	143,868	154,701
Sales (Advertising & Marketing) expense	12	59	44	150	747	1,000	720	750	750	780	3,000	5,000	6,000	6,120	6,242	6,367	6,495	6,624	6,757
General and administrative	7,852	5,099	4,798	4,452	(9,348)	5,000	1,440	1,500	1,500	1,560	6,000	8,000	9,000	9,180	9,364	9,551	9,742	9,937	10,135
Research & Development	82	936	933	1,472	(2,840)	500	600	625	625	650	2,500	4,000	4,080	4,162	4,245	4,330	4,416	4,505	4,595
Total expenses	8,872	6,093	5,775	6,073	(11,441)	6,500	2,760	2,875	2,875	2,990	11,500	17,000	19,080	19,462	19,851	20,248	20,653	21,066	21,487
Operating Profit	(8,872)	(6,093)	(5,775)	(6,073)	11,441	(6,500)	(1,844)	(1,921)	(1,940)	(1,978)	(7,683)	(1,811)	6,409	16,532	35,883	64,737	84,952	122,802	133,214
Oper Margin																			
Interest expense	(10)	(17)	(20)	(39)	(76)														
Amortization of Debt Discount	1	0	0	43	43														
Other (loss)	(268)	(270)	(384)	(3,692)	(4,346)														
Pre-tax income	(9,149)	(6,380)	(6,178)	(9,762)	11,441	(10,879)	(1,844)	(1,921)	(1,940)	(1,978)	(7,683)	(1,811)	6,409	16,532	35,883	64,737	84,952	122,802	133,214
Pretax Margin																			
Income Tax (Benefit)							(277)	(288)	(291)	(297)	(1,152)	(362)	1,602	4,629	10,765	20,068	27,185	42,981	49,289
Tax Rate							15%	15%	15%	15%	15%	20%	25%	28%	30%	31%	32%	35%	37%
GAAP Net Income	(9,149)	(6,380)	(6,178)	(9,762)	11,441	(10,879)	(1,567)	(1,633)	(1,649)	(1,682)	(6,530)	(1,449)	4,807	11,903	25,118	44,668	57,767	79,821	83,925
GAAP-EPS	(1.33)	(0.46)	(0.42)	(0.56)	0.66	(0.79)	(0.06)	(0.07)	(0.07)	(0.07)	(0.26)	(0.06)	0.19	0.47	0.99	1.76	2.28	3.14	3.29
Non GAAP EPS (dil)	(1.33)	(0.46)	(0.42)	(0.56)	0.66	(0.79)	(0.06)	(0.07)	(0.07)	(0.07)	(0.26)	(0.06)	0.19	0.47	0.99	1.76	2.28	3.14	3.29
Wqtd Avg Shrs (Bas) - '000s	6,903	13,829	14,564	17,381	17,415	15,797	15,000	15,030	15,060	15,090	15,045	15,166	15,287	15,410	15,534	15,658	15,784	15,911	16,038
Wqtd Avg Shrs (Dil) - '000s	6,903	13,829	14,564	17,381	17,415	15,797	25,000	25,050	25,100	25,150	25,075	25,125	25,176	25,226	25,276	25,327	25,378	25,428	25,479

Source: Dawson James estimates, company reports

Important Disclosures:

Price Chart:



Price target and ratings changes over the past three years:

- Initiated – Buy – February 4, 2021 – Price Target \$14.00
- Update – Buy – March 25, 2021 – Price Target \$14.00
- Update – Buy – April 8, 2021 – Price Target \$14.00
- Update – Buy – June 1, 2021 – Price Target \$14.00
- Update – Buy – July 12, 2021 – Price Target \$14.00
- Price Target Change – Buy – August 16, 2021 – Price Target Lowered to \$8.00 from \$14.00
- Price Target Change – Buy – November 18, 2021 – Price Target Lowered to \$4.00 from \$8.00

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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.
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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.

Current as of... 15-Nov-21

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	69%	5	20%
Market Perform (Neutral)	11	31%	0	0%
Market Underperform (Sell)	0	0%	0	0%
Total	36	100%	5	14%

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