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## Arch Therapeutics (OTCqb: ARTH)

June 24, 2022

### BUY: What's Next? Capital to Commercialize Could Spark a Higher Valuation

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*We spoke with management recently and conclude that Arch, with an approved and novel blood clotting product (a self-assembling polymer that when dry is clear, not opaque), is a viable product being restrained by capital resources to support its launch. We see a pathway, with capital, for Arch to expand commercialization. So, what's next? Arch needs capital. We expect to see the company raise capital and up list off the bulletin boards to a major exchange in the next few months.*

**Commercializing Is Happening.** The launch is happening, albeit slowly as the company is capital constrained at the moment. The company's strategy is to drive use with key opinion leaders and early adopters. The company is prioritizing its focus on private and government facilities. Hospitals in the Veterans Health Administration tend to have many patients whose needs may be applicable to AC5. The company has also engaged with third parties in the United States, from distributors to contract organizations, consultants, advisors, scientists, clinicians, and/or other collaborators.

**Modest Expectations:** We assume a very slow and gradual market share build in the U.S. and E.U. Initially, the focus is likely to be on the dermatological sciences area, which we think of as outside the body versus Biosurgery (inside the body). We assume pricing in-line with the competitive marketplace \$2500-\$3,000 for a 2x2 area (4 cm sq area) versus AC5 as a liquid application.

**An Effective Barrier and Scaffold that Promotes Healing.** The company's flagship product is based on its AC5 self-assembling peptide (SAP) technology platform. The platform includes AC5 Advanced Wound System and AC5 Topical Hemostat, which have received marketing authorization as medical devices in the United States and Europe, respectively, and which are intended for skin applications, such as management of complicated chronic wounds or acute surgical wounds. The AC5 platform is a biocompatible peptide that is synthesized from proteogenic, naturally occurring L-amino acids. Unlike products that contain traditional peptide sequences, when applied to a wound, AC5-based products intercalate into the interstices of the connective tissue and self-assemble into a protective physical-mechanical nanoscale structure that can provide a barrier to leaking substances, such as blood, while also acting as a biodegradable scaffold that enables healing. Self-assembly is a central component of the mechanism of action.

**Valuation:** We project detailed revenue assumptions in our model out to 2031. We assume a royalty model – 30% net to Arch in our product models. We apply a 30% risk rate in our Free Cash Flow to the Firm (FCFF), discounted EPS (dEPS), and Sum-of-the-Parts (SOP) models, which are then equal-weighted and averaged and rounded to the nearest whole number to derive our 12-month projected price target of \$3.00.

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



Source: Arch		
52-Week Range	\$0.04	\$0.14
Shares Outstanding (mil.)	237.1	
Market Capitalization (mil.)	\$12	
Enterprise Value (mil.)	\$12	
Debt to Capital	0%	
Book Value/Share	\$0.01	
Price/Book	-	
Average Three Months Trading Volume (K)	237	
Insider Ownership	14.2%	
Institutional Ownership	0.0%	
Short interest (mil.)	-	
Dividend / Yield	\$0.00/0.0%	





## Risk Analysis

**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 1. Income Statement**

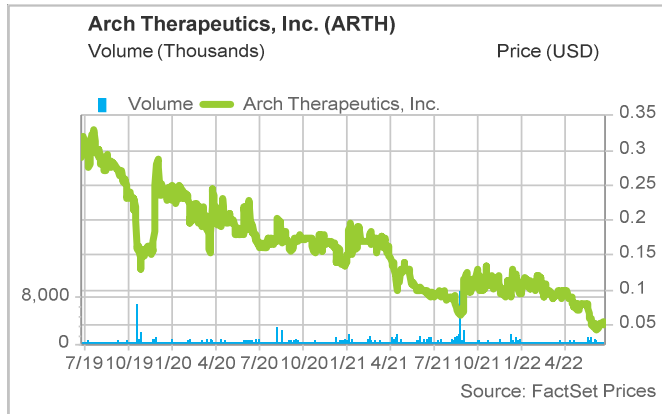
Arch Therapeutics, Inc.: Income Statement (\$000)		Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep											
Arch Therapeutics, Inc.: YE September 30		2021A	1Q22A	2Q22A	3Q22E	4Q22E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
<b>Product sales</b>																
AC5 (US) Dermatologic Science								12,000	21,478	43,408	65,795	88,649	111,975	135,782	160,076	184,866
AC5 (EU) " "		-	-	-	-	-	-	4,000	29,608	44,878	60,466	76,376	92,614	109,185	126,094	143,346
AC5 (US) BioSurgery								-	178,345	288,532	339,996	404,585	454,604	527,452	582,152	121,898
AC5 (EU) " "								-	85,972	143,002	144,504	156,226	165,805	167,547	179,836	181,725
<b>Total Product Sales</b>		<b>12</b>	<b>5</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,000</b>	<b>442,662</b>	<b>720,066</b>	<b>906,743</b>	<b>725,836</b>	<b>824,999</b>	<b>939,966</b>	<b>1,048,158</b>	<b>631,835</b>
<b>Expenses</b>																
Cost of Goods Sold		26	17	17	-	-	-	1,600	44,266	72,007	90,674	72,584	82,500	93,997	104,816	63,184
	%COGS	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Research and Development		1,353	235	528	355	341	1,421	1,492	1,939	2,521	3,277	4,261	4,474	4,697	4,932	5,179
	%R&D															
General and Administrative		5,009	1,263	1,209	1,315	1,262	5,260	5,523	5,302	5,090	4,886	5,033	5,184	5,443	5,715	6,001
	%SG&A															
<b>Total expenses</b>		<b>6,389</b>	<b>1,515</b>	<b>1,754</b>	<b>1,670</b>	<b>1,603</b>	<b>6,681</b>	<b>8,615</b>	<b>51,507</b>	<b>79,618</b>	<b>98,838</b>	<b>81,877</b>	<b>92,157</b>	<b>104,137</b>	<b>115,463</b>	<b>74,363</b>
Operating Income (Loss)		(6,377)	(1,510)	(1,751)	(1,670)	(1,603)	(6,681)	7,385	391,155	640,449	807,905	643,959	732,841	835,829	932,695	557,472
Interest expense																
Fair value of derivative liabilities in excess of proceeds																
Gain on exercise of warrants																
Loss on warrant derivative modification																
Loss on issuance of warrants																
Adjustments of fair value of derivative				1,000												
Other income																
<b>Total other income</b>		<b>-</b>	<b>-</b>	<b>1,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Pretax Income		(6,240)	(1,550)	(790)	(1,670)	(1,603)	(6,681)	7,385	391,155	640,449	807,905	643,959	732,841	835,829	932,695	557,472
Income Tax Benefit (Provision)		-			(84)	(80)	(164)	591	39,115	76,854	113,107	128,792	175,882	234,032	279,808	178,391
Tax Rate		0%	5%	5%	5%	5%	5%	8%	10%	12%	14%	20%	24%	28%	30%	32%
<b>GAAP Net Income (loss)</b>		<b>(6,240)</b>	<b>(1,550)</b>	<b>(790)</b>	<b>(1,587)</b>	<b>(1,523)</b>	<b>(6,517)</b>	<b>6,795</b>	<b>352,039</b>	<b>563,595</b>	<b>694,798</b>	<b>515,167</b>	<b>556,959</b>	<b>601,797</b>	<b>652,886</b>	<b>379,081</b>
<b>GAAP-EPS</b>																
GAAP EPS		(0.03)	(0.01)	(0.00)	(0.01)	(0.01)	(0.02)	0.03	1.47	2.35	2.89	2.13	2.29	2.47	2.67	1.54
GAAP EPS (dil)		(0.03)	(0.01)	(0.00)	(0.01)	(0.01)	(0.03)	0.03	1.47	2.35	2.89	2.13	2.29	2.47	2.67	1.54
Wgtd Avg Shrs (Bas) - '000s		220,001	236,789	236,865	237,102	237,339	237,024	237,933	238,886	239,843	240,804	241,769	242,737	243,709	244,686	245,666
Wgtd Avg Shrs (Dil) - '000s		220,001	236,789	236,865	237,102	237,339	237,024	237,933	238,886	239,843	240,804	241,769	242,737	243,709	244,686	245,666

Source: Dawson James estimates

Companies mentioned in this report:

**Important Disclosures:**

**Price Chart:**



**Price target and ratings changes over the past three years:**

- Initiated – Buy – May 5, 2021 – Price Target \$3.00
- Update Report – Buy – December 17, 2021 – Price Target \$3.00
- Update Report – Buy – March 15, 2022 – Price Target \$3.00
- Update Report – Buy – June 24, 2022 – Price Target \$3.00

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Current as of 16-Jun-22

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	31	72%	4	13%
Market Perform (Neutral)	12	28%	0	0%
Market Underperform (Sell)	0	0%	0	0%
<b>Total</b>	<b>43</b>	<b>100%</b>	<b>4</b>	<b>9%</b>

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