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Citius Pharmaceuticals (NASDAQ/CTXR)

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BUY: Raises Capital...but just \$15M @ Discount + 5YR Warrants – Lowering PT from \$10.0 to \$8.0

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Citius announced a capital raise of approximately \$15M for 12.5M shares at \$1.20 plus 5-year warrants with a \$1.50 strike. Our quick thoughts are, why? The company has capital - \$36.8M at the end of December 22 and multiple catalysts are set to unfold over the next year. The net result (factoring in dilution) is our price target ticks down from \$10.0 to \$8.0.

Investment Highlights

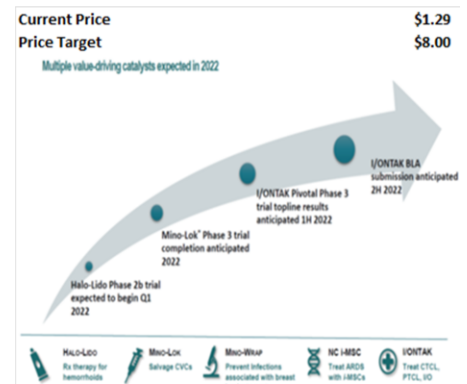
Mino-Lok is approaching the finish line: Management has now updated us on the number of catheter failure events; 85 of a target 92 events have been reached. We believe the decision to include sites in India is making the difference.

About the Trial: The Mino-Lok Phase 3 pivotal superiority trial is a multi-center, randomized, open-label, blinded study to determine the efficacy and safety of Mino-Lok. The primary endpoint for this study is the time (in days following randomization) to a catheter failure event between randomization and TOC (Week 6) in the Intent-to-Treat (ITT) Population. Additional secondary outcome measures include overall success, microbiological eradication, and clinical cure, among others. Patients diagnosed with catheter related blood stream infections (CRBSI/CLABSI) and who meet all necessary criteria for the study are randomized in a 1:1 ratio to receive either Mino-Lok therapy or standard of care antibiotic lock therapy. Patients in the Mino-Lok arm receive one dose daily with a dwell time of two to four hours for a total of seven doses. For subjects in the Control arm, the investigator determines the antibiotic used in the lock, dose, dwell time, and number of days of administration based on institutional standards or Infectious Diseases Society of America (IDSA) guidelines.

ONTAK BLA Under Review. The U.S. Food and Drug Administration (FDA) is currently reviewing a biologics license application (BLA) for IONTAK and has set a targeted decision date (PDUFA) of July 28, 2023. **As we have stated in the past,** management is now planning to spin-out IONTAK into a new company and raise capital to support the product's commercialization. Recall that Citius paid \$40M upfront and has an obligation for \$40M in milestones, and we assume a 10% royalty. Given the opportunity, combined with what we view as a low-risk therapeutic, we believe management can realize a significant return on its investment.

Valuation. Our valuation is based on our therapeutic models and associated assumptions projected to 2028. The lead product, Mini-Lok, is now in a Phase 3 trial, as is E7777. We use a 30% risk rate in our free cash flow to the Firm (FCFF), our discounted EPS (dEPS), and sum-of-the-parts (SOP) models on top of a 15% risk rate in our therapeutic models for both products. We equal weight and average these metrics and then round to the nearest whole number to derive our \$8.00 price target.

Risk Factors: These include Clinical Risk, Partnership Risk, Financial Risk, Regulatory Risk, and Legal and Commercial Risks.



Source: Citius

Stock Data

52-Week Range	\$0.77	-	\$1.71
Shares Outstanding (mil.)	146.3		
Market Capitalization (mil.)	\$188		
Enterprise Value (mil.)	\$168		
Debt to Capital	0%		
Book Value/Share	\$2.63		
Price/Book	1.7		
Average Three Months Trading Volume (K)	680		
Insider Ownership	8.4%		
Institutional Ownership	9.8%		
Short Interest (mil.)	8.7%		
Dividend / Yield	\$0.00/0.0%		

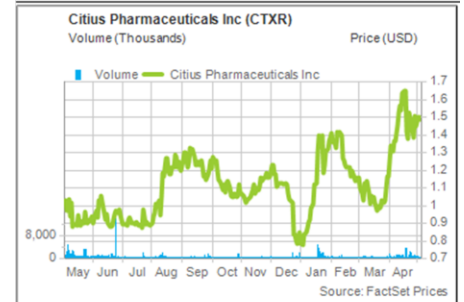


Exhibit 1. Income Statement

Citius Pharmaceuticals: Income Statement ('000)		December		March		June		Sept. YE											
YE Sept.	2019A	2020A	2021A	2022A	1Q23A	2Q23E	3Q23E	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Min-Lok, U.S. ST & LT CVC Revenues	-	-	-	-	-	-	-	-	-	105,236	214,702	328,526	446,839	569,775	581,228	592,910	604,828	616,985	629,386
CTCL Revenues	-	-	-	-	-	-	-	-	-	79,937	114,162	133,093	135,768	138,497	141,281	144,121	147,018	149,973	152,987
	-	-	-	-	-	-	-	-	-	185,173	328,863	461,619	582,607	708,272	722,509	737,031	751,845	766,957	782,373
Expenses																			
Cost of goods sold	-	-	-	-	-	-	-	-	-	27,776	49,330	69,243	87,391	106,241	108,376	110,555	112,777	115,044	117,356
COGS % of Revenue					15%	15%	15%	15%		15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Research and development	8,596	8,813	12,241	17,655	3,446	3,360	3,500	3,694	14,000	14,280	14,566	14,857	15,154	15,457	15,766	16,082	16,403	16,731	17,066
R&D % of Revenue																			
G&A	6,285	8,095	9,836	11,755	2,603	2,878	2,997	3,511	11,990	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000	18,000
SG&A % of Revenue																			
Stock based comp. G & A	715	803	1,455	3,906	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201	1,201
Total expenses	27,540	17,711	23,532	33,317	7,250	7,439	7,699	8,407	27,191	61,257	83,096	103,301	121,746	140,899	143,344	145,837	148,381	150,976	153,623
Oper. Inc. (Loss)	(27,540)	(17,711)	(23,532)	(33,317)	(7,250)	(7,439)	(7,699)	(8,407)	(27,191)	123,916	245,767	358,318	460,861	567,373	579,165	591,194	603,464	615,981	628,750
Interest Income	53	68	262	251	215	215	215	215	215	215	215	215	215	215	215	215	215	215	215
Gain (loss) on revaluation of derivative warrant liability		110	216		3,586	3,586	3,586	3,586	3,586	3,586	3,586	3,586	3,586	3,586	3,586	3,586	3,586	3,586	3,586
Interest Expense	(16)	(16)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Pre-tax income	(27,503)	(17,548)	(23,055)	(33,641)	(3,450)	(3,638)	(3,898)	(4,607)	(23,391)	127,716	249,567	362,118	464,661	571,174	582,965	594,994	607,264	619,782	632,551
Pretax Margin																			
Income Tax Benefit (Provision- Warrant)	-	-	1,451	-					-										
Income Tax Expense					144					13,551	38,605	73,983	118,115	173,691	177,229	180,837	184,519	188,274	192,104
Tax Rate	0%	0%	5%		0%	0%	0%	0%	0%	10%	15%	20%	25%	30%	30%	30%	30%	30%	30%
GAAP Net Income (loss)	(27,474)	(30,976)	(42,834)	(33,641)	(3,594)	(3,638)	(3,898)	(4,607)	(23,391)	114,165	210,963	288,135	346,546	397,482	405,736	414,157	422,746	431,508	440,446
GAAP-EPS	(1.39)	(0.84)	(0.46)	(0.23)	(0.02)	(0.02)	(0.02)	(0.03)	(0.09)	0.78	1.15	1.43	1.61	1.76	1.74	1.71	1.69	1.67	1.65
Non GAAP EPS (dil)	(1.39)	(0.84)	(0.23)	(0.23)	(0.02)	(0.02)	(0.02)	(0.03)	(0.09)	0.78	1.15	1.43	1.61	1.76	1.74	1.71	1.69	1.67	1.65
Wgtd Avg Shrs (Bas) - '000s	20,162	36,071	108,599	146,066	146,211	158,857	159,016	159,175	155,815	159,574	160,213	160,855	161,499	162,146	162,796	163,448	164,102	164,760	165,420
Wgtd Avg Shrs (Dil) - '000s				146,067	146,211	172,673	174,400	176,144	167,357	178,804	184,222	189,804	195,555	201,481	207,586	213,876	220,356	227,033	233,913

Source: Dawson James estimates, company reports

Risk Analysis

In addition to the typical risks associated with development-stage specialty pharmaceutical companies, potential risks specific to Citius Pharmaceuticals, Inc. are as follows:

Partnership risk. Citius Pharmaceuticals, Inc. is in discussions with possible partners today, but there can be no assurances that the Company will be able to secure a favorable partnership.

Commercial risk. There are no assurances that the Company will be able to achieve significant market share and become profitable.

Clinical and regulatory risk. Lead products have to complete clinical trials. Trials may not produce results sufficient for regulatory approval.

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 or do so at favorable terms.

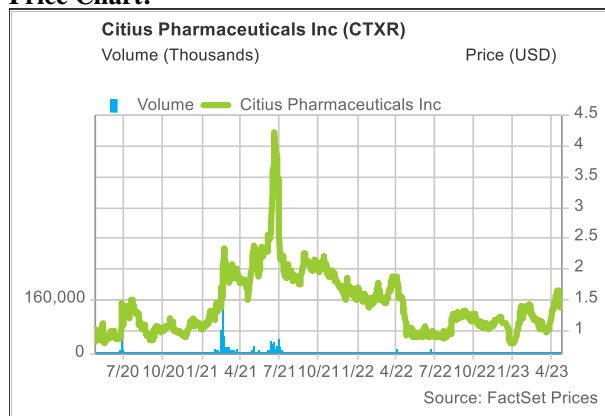
Liquidity Risk. The stock is thinly traded. We note that management owns a significant percentage of the Company.

Legal and 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 or that the Company may infringe on third parties' patents.

Companies mentioned in this report

Important Disclosures:

Price Chart:



Price target and rating changes over the past three years:

- Initiation – Buy – 12/15/2017 – Price Target \$10.00
- Update – Buy – 7/6/2018 – Price Target \$10.00
- Transfer – Buy – 9/6/2019 – Price Target \$7.00
- Update – Buy – 10/7/2019 – Price Target \$7.00
- Update – Buy – 12/19/2019 – Price Target \$7.00
- Update – Buy – 2/4/2020 – Price Target \$7.00
- Update – Buy – 2/25/2020 – Price Target \$7.00
- Update – Buy – 5/26/2020 – Price Target \$7.00
- Update – Buy – 9/28/2020 – Price Target \$7.00
- Update – Buy – 9/29/2020 – Price Target \$7.00
- Update – Buy – 11/30/2020 – Price Target \$7.00
- Update – Buy – 1/26/2021 – Price Target \$6.00
- Price Target Change – Buy – 2/18/2021 – Price Target \$8.00
- Update – Buy – 3/10/2021 – Price Target \$8.00
- Update – Buy – 5/21/2021 – Price Target \$8.00

Update – Buy – 6/9/2021 – Price Target \$8.00
Update – Buy – 7/1/2021 – Price Target \$8.00
Price Target Change – Buy – 9/9/2021 – Price Target \$10.00
Update – Buy – 12/6/2021 – Price Target \$10.00
Update – Buy – 2/11/2022 – Price Target \$10.00
Update – Buy – 2/15/2022 – Price Target \$10.00
Update – Buy – 4/6/2022 – Price Target \$10.00
Update – Buy – 4/18/2022 – Price Target \$10.00
Update – Buy – 4/26/2022 – Price Target \$10.00
Update – Buy – 5/5/2022 – Price Target \$10.00
Update – Buy – 5/13/2022 – Price Target \$10.00
Update – Buy – 5/25/2022 – Price Target \$10.00
Update – Buy – 7/12/2022 – Price Target \$10.00
Update – Buy – 8/15/2022 – Price Target \$10.00
Update – Buy – 9/28/2022 – Price Target \$10.00
Update – Buy – 12/6/2022 – Price Target \$10.00
Update – Buy – 12/23/2022 – Price Target \$10.00
Update – Buy – 2/14/2023 – Price Target \$10.00
Update – Buy – 3/31/2023 – Price Target \$10.00
Update – Buy – 4/25/2023 – Price Target \$10.00
Update – Buy – 5/4/2023 – Price Target Change \$10.00 to \$8.00

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- 2) **Neutral:** The analyst believes the price of the stock is fairly valued for the next 12-18 months;
- 3) **Sell:** The analyst believes the price of the stock will decline by at least 20% over the next 12-18 months and should be sold.

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Current as of 1-May-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	26	72%	2	6%
Market Perform (Neutral)	10	28%	1	3%
Market Underperform (Sell)	0	0%	0	0%
Total	36	100%	3	9%

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