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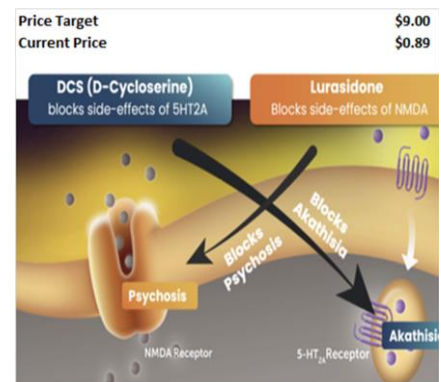
## NRx Pharmaceuticals, Inc. (NRXP) – Buy

June 5, 2023

### NRx Licenses NRX-101 to Lotus - \$330M in Milestones

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*Press Release: “NRx Pharmaceuticals, Lotus Pharmaceuticals, and Alvogen to collaborate on the further development and commercialization of NRX-101 for suicidal treatment-resistant bipolar depression (S-TRBD) for global markets.” NRXP picks up \$10M upfront dependent upon achieving both a successful read-out from the ongoing Phase 2b/3 clinical trial in S-TRB and completion of a Type B meeting with the U.S. Food and Drug Administration (FDA). We view this news as “de-risking” for the company.*



Source: NRx Pharmaceuticals

Stock Data	
52-Week Range	\$0.49 - \$1.54
Shares Outstanding (mil.)	70.3
Market Capitalization (mil.)	\$63
Enterprise Value (mil.)	\$46
Debt to Capital	0%
Book Value/Share	\$7.69
Price/Book	10.0
Average Three Months Trading Volume (K)	597
Insider Ownership	39.2%
Institutional Ownership	4.5%
Short interest (mil.)	1.9%
Dividend / Yield	\$0.00/0.0%



### Investment Highlights (Press Release):

**Lotus Pharmaceuticals** will acquire worldwide rights for NRX-101 for S-TRBD and will be responsible for the commercialization of NRX-101 in markets outside the US through Lotus’s direct presence in certain Asian markets or through their export division, which currently has partnerships in numerous markets, including in Europe, Japan, China, Australia and Latin America. Alvogen, through its CNS focused Almatica division, will be responsible for U.S. commercialization of NRX-101. NRx will be eligible to receive up to \$330 million in milestone payments tied to development progress and sales targets as well as tiered double-digit escalating to the mid-teens royalty payments contingent upon certain sales thresholds in the U.S. and a fixed royalty payment for markets outside the U.S. Agreement includes a right of first negotiation for new indications outside of the field of bipolar depression with suicidality for NRX-101 and/or potential new products containing D-cycloserine in combination with an antidepressant / antipsychotic.

**Details: Under the terms of the agreement, relating to NRX-101 for the U.S. market, NRx is entitled to receive an initial payment of \$10 million upon achieving both a successful read-out from the ongoing Phase 2b/3 clinical trial in S-TRB and completion of a Type B meeting with the U.S. Food and Drug Administration (FDA).** NRx would receive an additional payment of \$5 million upon receipt of FDA approval for NRX-101 as well as bonus milestone payments of increasing amounts up to \$330 million based on reaching certain net sales targets. In addition to success-based payments, NRx is eligible to receive a royalty on net sales between 12% and 16% contingent on certain sales thresholds for the U.S. market and other success-based payments for markets outside of the U.S.

**Valuation:** We project our model out to 2033. We apply a 30% risk cut to our projected revenues in our product model in addition to our 30% risk rate applied in our Free Cash Flow to the Firm (FCFF), discounted EPS (dEPS), and Sum-of-the-Parts (SOP) models. We do assume additional capital raises. We also assume the company repurchases stock in its outyears, (or we may even see a license deal that brings in non-dilutive capital and reduces our assumed development expenses. The result is equal-weighted and averaged and rounded to the nearest whole number to derive our 12-month projected price target of \$9.0.

**Risks to our thesis include:** 1. Regulatory Approvals; 2. Clinical Science 3. Intellectual Capital 4. Dilution.

**Valuation:** Our valuation for NRx Pharmaceuticals is based on revenue projections out to 2033. We know the markets are quite large for depression, PTSD, and related disorders. Success in one area leads to other indications. Our model assumes the company does raise additional capital. However, we also assume that with success, the company can repurchase stock (in the out-years) and create an efficient capital structure, and we may see an early license deal that brings in non-dilutive capital and or reduces expenses. This change is what principally drives our valuation target from \$3.0 (which was based on a fully diluted share count in 2033) to \$9.0. In our model, we assume a rising SG&A and R&D as the company commercializes its products and expands its pipeline, coupled with an improving cost of goods sold (COGS) initially at 20% and at scale falling to just 10%. Our valuation models: Free Cash Flow to the Firm (FCFF), discounted EPS (dEPS), and Sum-of-the-Parts (SOP), use a 30% discount rate. 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.

### Exhibit 1. Free Cash Flow Model

Average	\$	9
Price Target	\$	7
Year		2023

#### DCF Valuation Using FCF (min):

Units ('000)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
EBIT	(39,816)	(48,076)	(27,920)	(28,199)	9,519	211,234	380,946	565,656	837,362	1,030,866	1,150,374	1,328,536
Tax Rate	0%	0%	0%	0%	5%	8%	10%	18%	24%	28%	30%	31%
EBIT(1-t)	(39,816)	(48,076)	(27,920)	(28,199)	9,043	194,335	342,852	463,838	636,395	742,223	805,262	916,690
CapEx												
Depreciation												
Change in NWC												
FCF	(39,816)	(48,076)	(27,920)	(28,199)	9,043	194,335	342,852	463,838	636,395	742,223	805,262	916,690
PV of FCF	(51,761)	(48,076)	(21,477)	(16,686)	4,116	68,042	92,340	96,096	101,420	90,989	75,936	66,495
Discount Rate												
Long Term Growth Rate												
Terminal Cash Flow												
Terminal Value YE2033												
NPV												
NPV-Debt												
Shares out (thousands)												
NPV Per Share												

Source: Dawson James estimates

### Exhibit 2. Discounted EPS Model

Current Year	2023
Year of EPS	2033
Earnings Multiple	15
Discount Factor	30%
Selected Year EPS	\$ 9.15
NPV	\$ 9.96

Source: Dawson James estimates

		Discount Rate and Earnings Multiple Varies, Year is Constant					
		2033 EPS					
Earnings Multiple	10.0	5%	10%	15%	20%	25%	30%
	5		\$28.10	\$17.64	\$11.31	\$7.39	\$4.91
10		\$56.19	\$35.29	\$22.62	\$14.78	\$9.83	\$ 6.64
15		\$84.29	\$52.93	\$33.94	\$22.17	\$14.74	\$ 9.96
20		\$112.38	\$70.58	\$45.25	\$29.56	\$19.66	\$ 13.28
25		\$140.48	\$88.22	\$56.56	\$36.96	\$24.57	\$ 16.60
30		\$168.57	\$105.87	\$67.87	\$44.35	\$29.48	\$ 19.92
35		\$196.67	\$123.51	\$79.19	\$51.74	\$34.40	\$ 23.24
40		\$224.76	\$141.15	\$90.50	\$59.13	\$39.31	\$ 26.56

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

NRx Pharmaceuticals	LT Gr	Discount Rate	Yrs. to Mkt Peak	% Success	Peak Sales MM's	Term Val
NRX-101 for BPD	1%	30%	5	80%	\$800	\$2,759
NPV						\$4.75
NRX-101 for PTSD	1%	30%	5	80%	\$800	\$2,759
NPV						\$4.75
NPV						
						80%
MM Shrs OS (2030E)						100
Total						\$9.50

Source: Dawson James estimates

**Risks to our thesis include** 1. Regulatory Approvals; 2. Clinical Science; 3. Intellectual Capital 4. Dilution

- **Regulatory Approvals.** The company's products require regulatory approvals, and there can be no assurances that the requirements to achieve these approvals can be met. Furthermore, even if a drug product is approved, the regulators may impose limitations on the use or marketing of such product.
- **Clinical Science:** The company will need to demonstrate to its "sophisticated" clients (doctors and other physicians) that the product is effective, reliable, accessible, and marketable.
- **The Competitive Landscape & IP.** The company does have intellectual properties and knows how to protect the utility of its drugs; however, our patent position is highly uncertain.
- **Dilution:** The company is likely to incur losses for the foreseeable future until it is able to generate sufficient revenue from product sales. Our model assumes a rising share count. There can be no assurances that the company can successfully raise the capital required to execute its business strategy.

**Exhibit 4. Income Statement**

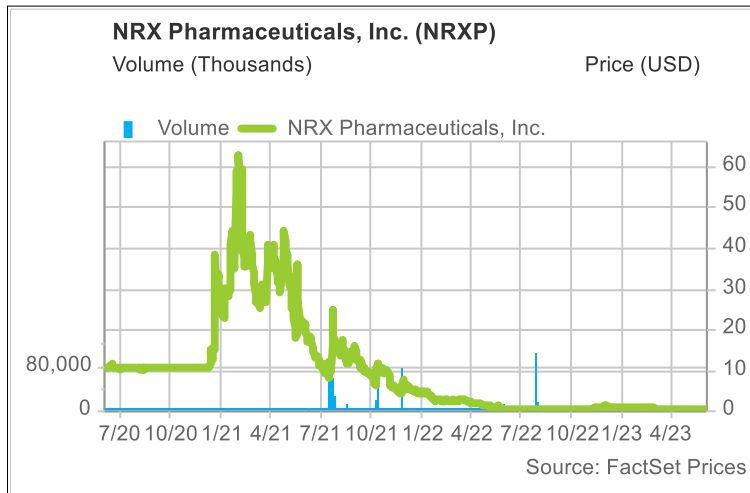
NRx Pharmaceuticals: Income Statement																
000 : YE December 31	2022A	1Q23A	2Q23E	3Q23E	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<b>Product sales</b>	-	-	-	-	-	-	-	-	50,000	200,000	300,000	400,000	600,000	660,000	726,000	798,600
NRX-101 for BPD	-	-	-	-	-	-	-	-	-	100,000	200,000	300,000	420,000	588,000	646,800	711,480
NRX-101 for PTSD	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Product Sales</b>	-	-	-	-	-	-	-	-	50,000	300,000	500,000	700,000	1,020,000	1,248,000	1,372,800	1,510,080
<b>Expenses</b>																
COGS	-	-	-	-	-	-	-	-	12,000	60,000	90,000	105,000	153,000	187,200	192,192	151,008
COGS %	0%	0%	0%	0%	0%	0%	0%	0%	24%	20%	18%	15%	15%	15%	14%	10%
Research and Development	17,027	3,650	5,108	5,108	6,566	20,432	24,519	29,423	23,538	18,830	19,019	20,921	25,105	30,126	30,427	30,731
General and Administrative	27,370	5,785	6,911	6,911	8,037	27,644	27,920	28,199	28,481	28,766	29,054	29,344	29,638	29,934	30,234	30,536
Settlement Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Reimbursement of expenses from Relief Therapeutics	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Operating Expenses</b>	44,397	9,435	12,019	12,019	14,603	48,076	27,920	28,199	40,481	88,766	119,054	134,344	182,638	217,134	222,426	181,544
Loss from Operations	(44,397)	(9,435)	(12,019)	(12,019)	(14,603)	(48,076)	(27,920)	(28,199)	9,519	211,234	380,946	565,656	837,362	1,030,866	1,150,374	1,328,536
<b>Other (income) Expenses</b>																
Gain on extinguishment of debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest income	(249)	(156)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense - Convertible note	505	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of warrant liability	(255)	1,772	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Change in fair value of Earnout Cash liability	(4,582)	(12)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total other (income) expense</b>	(4,581)	1,604	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net Loss</b>	(39,816)	(11,039)	(12,019)	(12,019)	(14,603)	(48,076)	(27,920)	(28,199)	9,519	211,234	380,946	565,656	837,362	1,030,866	1,150,374	1,328,536
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	5%	8%	10%	18%	24%	28%	30%	31%
<b>GAAP Net Income (loss)</b>	(39,816)	(10,933)	(12,019)	(12,019)	(14,603)	(47,970)	(27,920)	(28,199)	9,043	194,335	342,852	463,838	636,395	742,223	805,262	916,690
<b>GAAP-EPS</b>	(0.61)	(0.16)	(0.13)	(0.11)	(0.11)	(0.51)	(0.19)	(0.15)	0.04	0.90	1.59	2.14	2.92	3.40	3.67	9.15
GAAP EPS (dil)	(0.61)	(0.13)	(0.12)	(0.10)	(0.10)	(0.41)	(0.16)	(0.12)	0.03	0.74	1.30	1.75	2.39	3.40	3.67	9.15
Wgtd Avg Shrs (Bas) '000	65,767	67,454	93,676	109,613	130,709	100,363	150,372	194,532	214,210	215,068	215,930	216,795	217,663	218,535	219,411	100,150
Wgtd Avg Shrs (Dil) '000	65,767	82,897	103,726	124,763	151,011	115,599	176,225	234,097	261,975	263,024	264,078	265,136	266,198	267,264	268,335	100,150

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:

- Initiated – Buy – March 17, 2023 – Price Target \$3.0
- Update Report – March 27, 2023 – Price Target \$3.0
- Update Report – March 31, 2023 – Price Target \$3.0
- Price Target Change- April 3, 2023 Price Target goes from \$3.0 to \$9.0
- Update Report – April 5, 2023 – Price Target \$9.0
- Update Report – May 17, 2023 – Price Target \$9.0
- Update Report – June 5, 2023 – Price Target \$9.0

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Current as of 25-May-23

	<b>Company Coverage</b>		<b>Investment Banking</b>	
<b>Ratings Distribution</b>	# 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%
<b>Total</b>	<b>36</b>	<b>100%</b>	<b>3</b>	<b>9%</b>

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