

Hillstream BioPharma (HILS) – Neutral Rated

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Announces a Strategic Prioritization: Antibody Drug Conjugates Lowering from Buy to Neutral for the Moment.

Jason H. Kolbert
Managing Director & Senior Analyst
jkolbert@dawsonjames.com

The Hillstream story has now shifted away from Ferroptosis and nanoparticles to bi-specific antibodies. As we work to understand this change, we lower our rating from buy to neutral. The company announced an exclusive agreement with Applied Biomedical Science Institute (ABSI-Not Rated) to license technology for human antibodies targeting novel HER2 and HER3. The company now plans to develop these bi-specific antibodies and conjugates. The company is evaluating high value validated targets, HER2 and HER3, with a more potent Bystander Effect. On the one hand, we applaud the early decision to refocus resources, but for the interim while we work to understand this change, we believe it's prudent to lower our rating from Buy to Neutral.

Investment Thesis

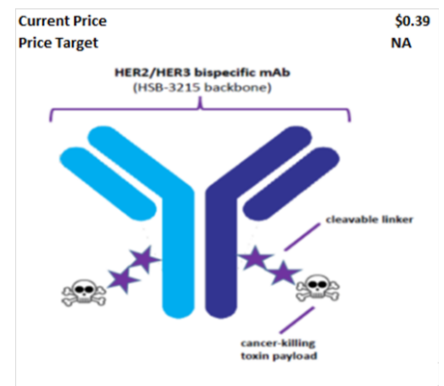
Bystander Effect - Targeting “Undruggable” Epitopes: PD-1 & TROP2: The company now plans to focus on these bispecific antibodies & conjugates which target novel conformational epitopes focusing on HER2 and HER3, with the hope of delivering a more potent Bystander Effect.

What is it? Bispecific antibodies (BsAbs) refer to a diverse group of molecules that recognize distinct epitopes on two different antigens, such as HER2 and HER3. These validated targets have been extensively studied and belong to the ERBB receptor tyrosine kinase family and are exploited by cancer cells to promote tumorigenesis and metastasis. HER2, an extensively studied and validated target, has multiple approved therapeutics for solid tumors. Meanwhile, emerging evidence suggests that HER3 plays a central role through interacting with neighboring receptors. While HER3 has little to no tyrosine kinase activity on its own, its activation to promote tumors depends on heterodimerization or locking into place with HER2 and EGFR, which is believed to unlock its cancer-causing potential.

Lead Asset HSB-3215: This is a bispecific humanized immunoglobulin containing two arms which target the extracellular domains of HER2 and HER3. HSB-3215 binds to both overlapping and different epitopes on HER2 when compared to trastuzumab, the first approved antibody against HER2, while adhering to novel epitopes on HER3, thus creating novel conformational epitopes. **The Company intends to develop this novel BsAb and file an IND application with the US FDA late next year.**

Valuation: Our model is under review. Typically we project our model out ten years and for early stage companies 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 use a fully diluted out-year share count, assuming multiple raises. Given the change in the lead asset we no longer feel our prior revenue assumptions are valid. As such we lower our rating from Buy to Neutral and have removed our price target,

Risks to our thesis include: 1. Regulatory Approvals; 2. Clinical Science 3. Adoption Rates 4. The competitive landscape 5. Intellectual Capital 6. Dilution.



Source: Hillstream

Current Price		\$0.39
Price Target		NA
Stock Data		
52-Week Range	\$0.30 -	\$2.65
Shares Outstanding (mil.)		16.8
Market Capitalization (mil.)		\$6
Enterprise Value (mil.)		\$3
Debt to Capital		0%
Book Value/Share		-
Price/Book		0.8
Average Three Months Trading Volume (K)		550
Insider Ownership		47.3%
Institutional Ownership		0.9%
Short interest (mil.)		1.1%
Dividend / Yield		\$0.00/0.0%



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- **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.
- **Clinical Science:** The company will need to demonstrate the products work.
- **Adoption Rates:** There are no assurances that the oncology products once developed will be competitive on the complex oncology landscape.
- **The Competitive Landscape & IP.** The company plans to operate in the highly competitive oncology landscape where well financed "big pharma" dominates the field. The company does have intellectual property however there are no assurances that IP will not be challenged.
- **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 during this period. There can be no assurances that the company can successfully raise the capital required to execute its business strategy.

Exhibit 1. Income Statement

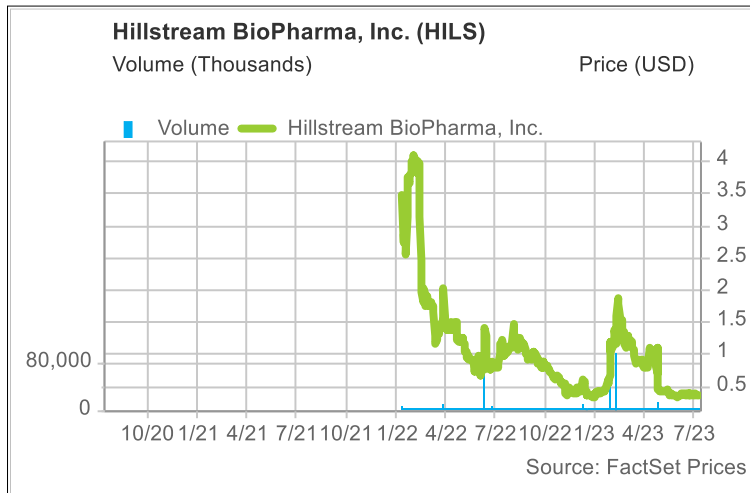
Hillstream BioPharma: Income Statement																
000 : YE December 31	2022A	1Q23A	2Q23E	3Q23E	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Product sales																
Product 1 - Oncology																
Total Product Sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses																
COGS																
COGS %		0%	0%	0%	0%											
Research and Development	2,278	1,048	684	684	319	2,734	3,281	3,937	6,500	5,200	5,252	5,777	6,933	8,319	9,983	11,980
General and Administrative	4,604	1,667	1,162	1,162	658	4,650	4,696	4,743	4,790	8,000	10,000	14,000	15,000	15,150	15,302	15,455
Total Operating Expenses	6,882	2,714	1,846	1,846	977	7,384	4,696	4,743	4,790	8,000	10,000	14,000	15,000	15,150	15,302	15,455
Loss from Operations	(6,882)	(2,714)	(1,846)	(1,846)	(977)	(7,384)	(4,696)	(4,743)	(4,790)	(8,000)	(10,000)	(14,000)	(15,000)	(15,150)	(15,302)	(15,455)
Other Expense																
Interest Expense	(1,591)	(6)	-	-	-	(6)	-	-	-	-	-	-	-	-	-	-
Change in Redemption Value		32	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Expense	(1,591)	26	-	-	-	(6)	-	-	-	-	-	-	-	-	-	-
Net Loss	(8,473)	(2,688)	(1,846)	(1,846)	(977)	(7,390)	(4,696)	(4,743)	(4,790)	(8,000)	(10,000)	(14,000)	(15,000)	(15,150)	(15,302)	(15,455)
	-	-	-	-	-	-	-	-	-	-	-	(700)	(1,500)	(3,606)	(5,098)	(5,415)
Tax Rate	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	5%	10%	24%	33%	35%
GAAP Net Income (loss)	(8,473)	(2,688)	(1,846)	(1,846)	(977)	(7,390)	(4,696)	(4,743)	(4,790)	(8,000)	(10,000)	(13,300)	(13,500)	(11,544)	(10,203)	(10,039)
GAAP-EPS	(0.75)	(0.23)	(0.16)	(0.07)	(0.04)	(0.50)	(0.17)	(0.11)	(0.07)	(0.09)	(0.10)	(0.13)	(0.13)	(0.11)	(0.15)	(0.15)
GAAP EPS (dil)	(0.75)	(0.23)	(0.16)	(0.06)	(0.03)	(0.34)	(0.11)	(0.09)	(0.05)	(0.06)	(0.07)	(0.09)	(0.09)	(0.11)	(0.15)	(0.15)
Wgtd Avg Shrs (Bas) '000	11,316	11,514	11,629	26,746	27,013	19,226	34,755	42,871	72,552	86,664	95,309	99,179	103,206	107,397	65,982	68,661
Wgtd Avg Shrs (Dil) '000	11,316	11,514	11,629	31,746	32,063	21,738	42,355	53,087	93,334	127,577	140,446	146,148	152,083	158,258	65,982	68,661

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 – February 22, 2023 – Price Target \$4.0
- Update Report – Buy – March 20, 2023 – Price Target \$4.0
- Update Report – Buy – April 11, 2023 – Price Target \$4.0
- Update Report – Buy – April 28, 2023 – Price Target \$4.0
- Update Report – Buy – May 24, 2023 – Price Target \$4.0
- Rating Change: Buy to Neutral – July 17, 2023 – Price Target NA

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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.
- 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 17-Jul-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	25	69%	2	5.50%
Market Perform (Neutral)	11	31%	2	5.50%
Market Underperform (Sell)	0	0%	0	0.00%
Total	36	100%	4	11.00%

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