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Hillstream BioPharma (HILS) – Neutral Rated

September 13, 2023

Hillstream Working to Rebuild Its Pipeline: Pruritis

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Hillstream announced that the company now has an “exclusive option agreement” to acquire a clinical-stage asset, AV104, with a recently approved IND. We understand the need to build the pipeline as the company’s lead oncology asset has fallen, however, the company has limited resources (reported just under \$4M in cash at the end of the June quarter). We remain neutral-rated.

Investment Thesis

AV104: This molecule is believed to have a dual mechanism of action affecting both the μ -opioid receptor and the kappa opioid receptor as well as inhibiting IL-17 inflammatory cytokine expression. These receptors are believed to play a role in suppressing chronic, debilitating pruritis. Hillstream anticipates completing Phase 1 & Phase 2 clinical trials in chronic pruritis over the next ~12 months. The company intends to first seek approval in an orphan disease for the treatment of moderate to severe cholestatic pruritis in patients with primary biliary cholangitis (PBC).

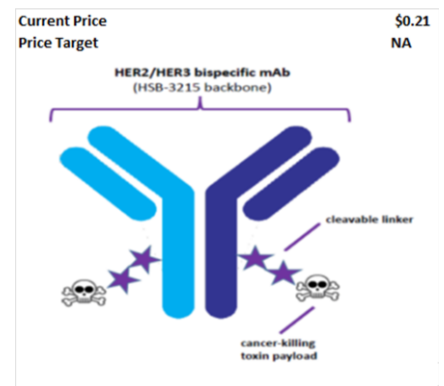
Bystander Effect - Targeting “Undruggable” Epitopes: PD-1 & TROP2: The company now plans to focus on these bispecific antibodies & conjugates which target novel conformational epitopes focusing on HER2 and HER3, with the hope of delivering a more potent Bystander Effect.

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.**

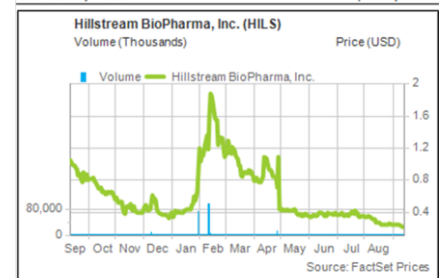
Valuation: Our model is under review. Typically, we project our model out ten years and for early-stage companies apply a 30% risk cut to our projected revenues in our product model in addition to our 30% risk rate applied in our Free Cash Flow to the Firm (FCFF), discounted EPS (dEPS), and Sum-of-the-Parts (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 recently lowered our rating from Buy to Neutral and 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

Stock Data	
52-Week Range	\$0.19 - \$2.65
Shares Outstanding (mil.)	17.6
Market Capitalization (mil.)	\$4
Enterprise Value (mil.)	\$0
Debt to Capital	0%
Book Value/Share	-
Price/Book	0.8
Average Three Months Trading Volume (K)	209
Insider Ownership	24.7%
Institutional Ownership	8.8%
Short interest (mil.)	0.3%
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

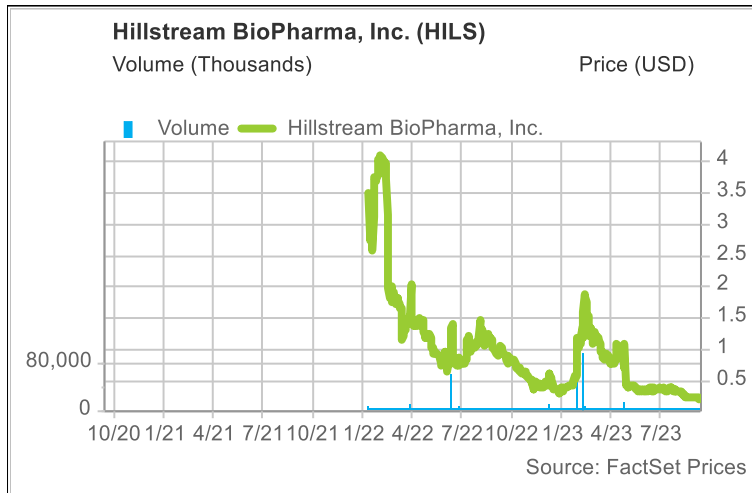
Hillstream BioPharma: Income Statement																
000 - YE December 31	2022A	1Q23A	2Q23A	3Q23E	4Q23E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
Product sales																
Product 1 - Oncology																
Total Product Sales	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses																
COGS																
COGS %		0%	0%	0%	0%											
Research and Development	2,278	1,048	1,334	700	750	3,831	4,597	5,517	6,500	5,200	5,252	5,777	6,933	8,319	9,983	11,980
General and Administrative	4,604	1,667	1,031	1,000	750	4,448	4,492	4,537	4,583	8,000	10,000	14,000	15,000	15,150	15,302	15,455
Total Operating Expenses	6,882	2,714	2,365	1,700	1,500	8,279	4,492	4,537	4,583	8,000	10,000	14,000	15,000	15,150	15,302	15,455
Loss from Operations	(6,882)	(2,714)	(2,365)	(1,700)	(1,500)	(8,279)	(4,492)	(4,537)	(4,583)	(8,000)	(10,000)	(14,000)	(15,000)	(15,150)	(15,302)	(15,455)
Other Expense																
Interest Expense	(1,591)	(6)	(7)	-	-	(13)	-	-	-	-	-	-	(700)	(1,500)	(3,606)	(5,415)
Change in Redemption Value		32	34	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Other Expense	(1,591)	26	28	-	-	(13)	-	-	-	-	-	-	-	-	-	-
Net Loss	(8,473)	(2,688)	(2,337)	(1,700)	(1,500)	(8,292)	(4,492)	(4,537)	(4,583)	(8,000)	(10,000)	(14,000)	(15,000)	(15,150)	(15,302)	(15,455)
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)	(2,337)	(1,700)	(1,500)	(8,292)	(4,492)	(4,537)	(4,583)	(8,000)	(10,000)	(13,300)	(13,500)	(11,544)	(10,203)	(10,039)
GAAP-EPS	(0.75)	(0.23)	(0.16)	(0.06)	(0.05)	(0.50)	(0.15)	(0.10)	(0.06)	(0.09)	(0.10)	(0.13)	(0.13)	(0.10)	(0.15)	(0.15)
GAAP EPS (dil)	(0.75)	(0.23)	(0.16)	(0.05)	(0.04)	(0.34)	(0.10)	(0.08)	(0.05)	(0.06)	(0.07)	(0.09)	(0.09)	(0.10)	(0.15)	(0.15)
Wgtd Avg Shrs (Bas) '000	11,316	11,514	14,950	30,100	30,401	21,741	37,751	45,502	75,290	89,514	98,274	102,265	106,417	110,738	65,982	68,661
Wgtd Avg Shrs (Dil) '000	11,316	11,514	14,950	35,100	35,451	24,254	45,352	55,718	96,072	130,426	143,411	149,234	155,293	161,599	65,982	68,661

Source: Company reports and Dawson James

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
 Update Report Neutral – August 14, 2023 – Price Target NA
 Update Report Neutral – September 13, 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.

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 22-Aug-23

	Company Coverage		Investment Banking	
Ratings Distribution	# of Companies	% of Total	# of Companies	% of Totals
Market Outperform (Buy)	23	65.70%	3	8.60%
Market Perform (Neutral)	12	34.30%	3	8.60%
Market Underperform (Sell)	0	0%	0	0.00%
Total	35	100%	6	17.20%

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