

Action Summary – 26 August 2021

Analyst Theodore R. O'Neill reports 2Q21 and full enrollment in Phase 3 trial - reiterate Buy rating - raising PT to \$15 from \$5.

- Company reported 2Q21 EPS loss of \$0.25. Consensus expectations were for an EPS loss of \$0.21. The variance was due to higher operating expenses related to its now fully enrolled Phase 3 trial of AD04, non-cash compensation and increased headcount.
- **>\$21B annual market for its first product: AD04.** We estimate the annual AD04 U.S. market alone could exceed \$21B annually by 2025 based on AD04 filled prescriptions for 25% of the 35MM people in the U.S. who are believed to have Alcohol Use Disorder (AUD). We believe AUD patients will more readily accept this medication primarily because: it's a better alternative than other treatments – well tolerated in trials with limited side effects; it doesn't require that the patient confess his/her sins to the world; keeps the treatment and the disease a private matter between the patient and the prescribing physician, where it belongs
- **Entering the genetic test market, which could also generate >\$1B revenue annually.** The AD04 medication works for the 1/3 of people who have a positive genetic marker. Using this test to separate those who will respond to AD04 from those who do not opens a market for even those for whom AD04 isn't useful. This is because insurers will likely want to confirm this marker before covering treatment.
- We have lowered our near-term EPS forecast to support the higher costs of the ongoing trials, but raised our price target to \$15 from \$5 to reflect the potential financial impact of AD04. Note, our PT is based on the discounted value of future earnings and takes into account expected losses until 2025, which we believe is conservative.
- Our 2021 EPS loss rises to \$0.97 from \$0.77. Our 2022 EPS loss rises to \$0.70 from \$0.54.

8/25 Closing price: \$3.79	Market cap: \$77 million	Multiple of book: NMF	EV/2022 Sales: NMF
Shares outstanding: 20 million	Insider ownership: 22%	3-mo. avg. trading volume: 1.2MM	Dividend/Yield: NA/NA

GAAP estimates (EPS in dollars – Revenue in millions)

Period	EPS	Revenue	Op Margin
1Q20A	(\$0.22)	\$0.00	
2Q20A	(\$0.16)	\$0.00	
3Q20A	(\$0.24)	\$0.00	
4Q20A	(\$0.24)	\$0.00	
FY20A	(\$0.87)	\$0.00	NMF
1Q21A	(\$0.30)	\$0.00	
2Q21A	(\$0.25)	\$0.00	
3Q21E	(\$0.22)	\$0.00	
4Q21E	(\$0.21)	\$0.00	
FY21E	(\$0.97)	\$0.00	NMF
1Q22E	(\$0.17)	\$0.00	
2Q22E	(\$0.17)	\$0.00	
3Q22E	(\$0.17)	\$0.00	
4Q22E	(\$0.17)	\$0.00	
FY22E	(\$0.70)	\$0.00	NMF

Note: Numbers may not add due to rounding. See our full model in the back of this report.

Cash balance (in millions)

• 2019A	• \$6.77
• 2020A	• \$4.40
• 2021E	• \$0.83
• 2022E	• \$0.42

Debt (in millions)

• 2019A	• \$0.00
• 2020A	• \$0.00
• 2021E	• \$0.00
• 2022E	• \$0.00

Risks/Valuation

- Risks include: Highly regulated and competitive business, commercial development and marketing
- Our \$15.00 target is derived using a discounted future earnings model

Company description: Adial Pharmaceuticals is a clinical-stage biopharmaceutical company focused on developing therapies for the treatment and prevention of addiction and related disorders.

Figure 1 – Adial Pharmaceuticals, Inc. - Trading snapshot



Source: FactSet

Valuation Methodology

We believe ADIL is undervalued and we support that belief with a discounted future earnings model (see Figure 2)

Discounted Future Earnings – Basis for Price Target

Figure 2 shows the implied value of all future earnings discounted at 15%. It is based on reaching breakeven in 2025 and implies a stock value of \$15.25. For our price target, we round it down to \$15.00.

Figure 2 – Adial Pharmaceuticals, Inc. – Discounted Future Earnings

Discounted Earnings:			\$15.25
Year		EPS	Discounted EPS
2021	0	(0.97)	(0.97)
2022	1	(0.70)	(0.60)
2023	2	(0.60)	(0.45)
2024	3	(0.40)	(0.26)
2025	4	0.50	0.29
2026	5	1.00	0.50
2027	6	2.00	0.86
2028	7	3.00	1.13
2029	8	4.00	1.31
2030	9	5.00	1.42
Terminal Value:			12.03

Source: Litchfield Hills Research LLC

Quarterly Results

ADIL reported an EPS loss of \$0.25. We had been looking for an EPS loss of \$0.17. Relative to our estimates, the \$0.09 unfavorable variance was due to higher operating expenses (see Figure 3).

Figure 3 – Adial Pharmaceuticals, Inc. – Quarterly Variance Analysis (\$000)

	2021 Q2E	2021 Q2A	Better/(worse) than forecast
(\$000)			
Income Statement			
Total Revenue	\$0.0	\$0.0	\$0.0
Total cost of revenue	0	0	0
Total Gross Profit	0	0	0
Operating expenses:			
SG&A	1,000	2,319	(1,319)
R&D	2,000	2,085	(85)
Total Expenses	3,000	4,404	(1,404)
Earnings (loss) from Operations	(3,000)	(4,404)	(1,404)
Total Other income/(expense)	(1)	(37)	(37)
Earnings before taxes	(3,001)	(4,441)	(1,440)
Tax expense/(benefit)	0	0	0
Net income	(\$3,001)	(\$4,441)	(\$1,440)
Deemed dividend			
EPS including deemed dividend if any	(\$0.17)	(\$0.25)	(\$0.09)
Pro-forma EPS			
Diluted common shares	18,000	17,589	411

Source: Company filings and Litchfield Hills Research LLC



Adial Pharmaceuticals, Inc.

ADIL-\$15.00 PT

Guidance and Financial Forecasts

Company provides no guidance. For more information, see our June 29 initiation report.

Figure 4 – Adial Pharmaceuticals, Inc. – Comp Table

FactSet Ticker	Company Name	Closing Price	Market Cap \$MM	EV \$MM	2022 Consensus Multiples				
					Market Cap / Sales	EV /Sales	EV / EBITDA	Price to Book	PE
BIIB-US	Biogen Inc.	\$346.43	51,630	57,044	4.62	5.20	13.12	3.49	16.61
EXAS-US	EXACT Sciences Corp.	\$97.59	16,780	17,828	8.10	8.15	NA	7.48	NA
ALKS-US	Alkermes PLC	\$30.05	4,848	4,719	3.83	3.70	NMF	2.98	30.13
EBS-US	Emergent Biosolutions Inc.	\$63.67	3,419	3,876	2.26	2.57	7.94	3.29	12.20
INDV-GB	Indivior PLC	\$2.68	1,958	1,366	2.52	1.92	6.82	13.31	13.27
TRVN-US	Trevena Inc	\$1.19	196	111	15.60	8.36	NA	3.29	NA
MNOV-US	MediciNova Inc. (US Listing)	\$3.64	178	100	NA	NA	NA	3.32	NA
ACRX-US	AcelRx Pharmaceuticals Inc.	\$1.11	132	186	1.96	2.51	NA	NA	NA
ANEB-US	Anebulo Pharmaceuticals, Inc.	\$6.84	160	159	NA	NA	NA	NA	NA
OPNT-US	Opiant Pharmaceuticals, Inc.	\$16.17	71	59	2.90	1.90	NA	0.96	NA
TTNP-US	Titan Pharmaceuticals	\$2.12	21	12	NA	NA	NA	6.65	NA
	AVERAGE				<u>5.22</u>	<u>4.29</u>	<u>9.29</u>	<u>4.97</u>	<u>18.05</u>

Source: Litchfield Hills Research LLC and Refinitiv Eikon (formerly Thomson Reuters Eikon)

Figure 5 – Adial Pharmaceuticals, Inc. – Income Statement (\$000)

December ending year	2019A	2020A				2020A	2021E				2021E	2022E				2022E
	Year	Q1A	Q2A	Q3A	Q4A	Year	Q1A	Q2A	Q3E	Q4E	Year	Q1E	Q2E	Q3E	Q4E	Year
Total revenue	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Cost of Goods	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Gross Profit	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
R&D	3,966	1,060	888	1,847	2,059	5,853	2,052	2,319	2,400	2,400	9,171	2,000	2,000	2,000	2,000	8,000
SG&A	<u>4,279</u>	<u>1,241</u>	<u>931</u>	<u>1,491</u>	<u>1,412</u>	<u>5,075</u>	<u>2,789</u>	<u>2,085</u>	<u>2,000</u>	<u>2,000</u>	<u>8,873</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>2,000</u>	<u>8,000</u>
Total Operating Expenses	8,245	2,300	1,819	3,338	3,471	10,928	4,840	4,404	4,400	4,400	18,044	4,000	4,000	4,000	4,000	16,000
Operating Income	(8,245)	(2,300)	(1,819)	(3,338)	(3,471)	(10,928)	(4,840)	(4,404)	(4,400)	(4,400)	(18,044)	(4,000)	(4,000)	(4,000)	(4,000)	(16,000)
Total Other Items	(347)	23	8	3	1	35	7	(37)	(1)	(1)	(32)	(1)	(1)	(1)	(1)	(2)
Pre-Tax Income	(8,591)	(2,277)	(1,811)	(3,336)	(3,469)	(10,893)	(4,834)	(4,441)	(4,401)	(4,401)	(18,076)	(4,001)	(4,001)	(4,001)	(4,001)	(16,002)
Taxes (benefit)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tax Rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income (loss)	(\$8,591)	(\$2,277)	(\$1,811)	(\$3,336)	(\$3,469)	(\$10,893)	(\$4,834)	(\$4,441)	(\$4,401)	(\$4,401)	(\$18,076)	(\$4,001)	(\$4,001)	(\$4,001)	(\$4,001)	(\$16,002)
EPS	(\$0.87)	(\$0.22)	(\$0.16)	(\$0.24)	(\$0.24)	(\$0.87)	(\$0.30)	(\$0.25)	(\$0.22)	(\$0.21)	(\$0.97)	(\$0.17)	(\$0.17)	(\$0.17)	(\$0.17)	(\$0.70)
Diluted Shares Outstanding	9,852	10,497	11,292	13,646	14,415	12,463	15,912	17,589	20,000	21,000	18,625	23,000	23,000	23,000	23,000	23,000

Source: Company reports and Litchfield Hills Research LLC

Figure 6 – Adial Pharmaceuticals, Inc. – Balance Sheet (\$'000)

December ending year	FY2022E	FY2021E	FY2020A	FY2019A
Balance sheet				
Current Assets				
Cash and S.T.I.	\$423	\$825	\$4,401	\$6,777
Accounts receivable	0	0	0	0
Inventories	0	0	0	0
Other assets	1,000	750	735	896
Total Current Assets	1,423	1,575	5,136	7,673
Net PP&E	0	0	0	0
Other non-current assets	3,000	2,500	356	6
Total Assets	\$4,423	\$4,075	\$5,491	\$7,680
Current Liabilities				
Accounts payable	\$1,000	\$700	\$649	\$190
Accrued expenses	3,000	2,000	857	349
Other current liabilities	0	0	0	0
Total current liabilities	4,000	2,700	1,505	539
Conv. and Long Term Debt	0	0	0	0
Other non-current	1,000	950	0	0
Total Liabilities	5,000	3,650	1,505	539
Stockholders' Equity				
Preferred stock	0	0	0	0
Common stock	20	20	14	10
Additional paid-in-capital	65,000	50,000	35,491	27,757
Retained earnings	(65,597)	(49,595)	(31,520)	(20,627)
Cum. trans. adj. and treasury stock	0	0	0	0
Total stockholders' equity	(577)	425	3,986	7,141
Total Liabilities and equity	\$4,423	\$4,075	\$5,491	\$7,680

Source: Company reports and Litchfield Hills Research LLC

Figure 7 – Adial Pharmaceuticals, Inc. – Cash Flow (\$000)

	2022E	2021E	2020A
Net Income	(\$16,002)	(\$18,076)	(\$10,893)
Accounts receivable	0	0	0
Inventories	0	0	0
Other assets	(250)	(15)	162
PP&E	0	0	0
Other non-current	(500)	(2,144)	(349)
Accounts payable	300	51	459
Accrued expenses	1,000	1,143	508
Other current liabilities	0	0	0
Conv. and Long Term Debt	0	0	0
Other non-current	50	950	0
Preferred stock	0	0	0
Common stock	0	6	4
Additional paid-in-capital	15,000	14,509	7,734
Stock subscription receivable	0	0	0
Other			
Total Cash Flow	(\$402)	(\$3,577)	(\$2,376)

Source: Litchfield Hills Research LLC

Disclosures:

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Adial Pharmaceuticals, Inc.

ADIL-\$15.00 PT

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