

Acasti Pharma

Sustaining Top Pick Status On Advanced Phase III-Stage Drug Developer. TRILOGY I Data On The Horizon This Quarter.

ACST-TSXV: \$2.87
Speculative Buy
\$4.00 Target

Event: We continue to ascribe Top Pick status to QC-based omega-3 drug developer Acasti Pharma, with the firm expected to report top-line data from its two pivotal Phase III hypertriglyceridemia trials (the 500-patient TRILOGY I & II trials, with a TRILOGY I update expected imminently) that are collectively testing the firm's phospholipid ester-based omega-3 drug formulation CaPre. ACST shares have performed well in recent quarters, generating T12M return to end-of-2019 of 181%, and specifically generating total return of 31.1% during Q419, which is the financial period relevant to our prior Top Pick designation. Our \$4.00 PT implies one-year return from current price levels of 39.4%, but we believe upside from that level exists if TRILOGY I/II data compare favorably on serum triglyceride lowering not just to prior CaPre clinical data published by Acasti itself, but also to Phase III data published by Acasti's omega-3 development peers, specifically Vascepa developer Amarin (AMRN-Q, NR) & AstraZeneca (AZN-L, NR)/Omthera that we have described before.

Bottom line: Though we were mildly disappointed to see timelines to TRILOGY I data roll into the current quarter, a timeline shift of days-to-weeks has trivial implications for our financial forecasts and valuation, which we continue to base on NPV and multiples of our F2023 EBITDA/EPS forecasts. Our model still assumes that Acasti can generate sufficiently positive TRILOGY I/II data (primary endpoint is the change in serum triglyceride levels at twelve weeks in comparison to baseline and to placebo, but six-month follow-up data and secondary data on change in other serum lipid biomarkers should be generated prior to formal FDA review) to support its 505(b)(2) filing during FH121, and then for FDA review (and launch thereafter) to transpire during FH222.

Acasti's primary valuation driver is still its own Phase III clinical programs, for which pivotal data are imminent and expected this quarter: We stand by our view that CaPre's Phase III clinical prospects are well-supported by its Phase II clinical history, with positive data already generated in the 230-patient two-month open-label COLT trial completed in Aug/13, the 365-patient three-month placebo-controlled TRIFECTA trial completed in Sept/14, and the recently-completed 56-patient bioequivalency trial that compared CaPre to Glaxo (GSK-L, NR)/Reliant Pharmaceuticals' mixed omega-3 ethyl ester formulation Lovaza, with several PK parameters favouring CaPre as described in a manuscript published in Mar/19 in the journal *Clinical Therapeutics*. A separate 42-patient PK trial published in the same journal in Dec/19 reported favorable CaPre dosing parameters and tolerability through 1-4 g daily dosing and with minimal food effect on its GI absorption.

A key secondary valuation driver in our view is the growing positive regard for omega-3 Rx formulations that Amarin's REDUCE-IT data confers: We are of course still positive about how peer firm Amarin performs in 2020 and beyond with its already-FDA-approved EPA ethyl ester omega-3 formulation Vascepa, now that the drug has been formally recognized by the FDA for claims to reduce cardiovascular event risk, as demonstrated in the firm's now-published (in the *New England Journal of Medicine*) 8,179-patient REDUCE-IT trial. Amarin just today announced that it expects F2020 US revenue to be US\$650M-to-US\$700M, and thus dramatically higher than F2019 sales that are expected to be at or above US\$425M, which was the top-end of its previously-announced revenue guidance for the drug.

Projected Return: 39.4%
Valuation: NPV, 20x EPS, 12.5x EV/EBITDA (20% disc, F2023 estimates)

Market Data

Basic Shares O/S (M)	85.2
Full-Dil Shares O/S (M)	108.1
Market capitalization (M; basic S/O)	243.6
Enterprise Value	219.8
Adj cash (\$M)	25.8
Total debt (rec. Q, \$M)	1.9
52 Week Range	\$3.08-\$0.76
Avg. Daily Volume (M)	11.7899
Fiscal Year End	Mar-31

Milestone Watch (calendar-year)

Efficacy data, COLT trial (Aug-13)	Q313
Efficacy data, TRIFECTA trial (Sept-14)	Q314
Complete TRILOGY I/II enrol (Jun/19)	Q219
Data from Phase III US TRILOGY I/II trials	Q120
CaPre 505(b)(2) filing/FDA approval	Q220/Q221

Financial Metrics (fiscal year-end Mar-31)

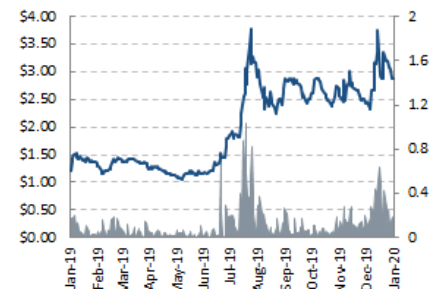
In C\$000's	F2021E	F2022E	F2023E
Revenue	5,000	36,435	67,707
EBITDA	(3,328)	26,889	54,143
Adj. Net Income	(4,692)	16,158	34,963
Adj. EPS (fd)	(\$0.04)	\$0.15	\$0.32
P/E	NA	19.1x	8.8x
EV/EBITDA	NA	10.6x	5.3x

Valuation Data

	2019A	2020E	2021E
EV/EBITDA	Current	NA	NA
Peers	8.1x	NA	NA
P/E	Current	NA	NA
Peers	NA	16.1x	152.7x

Company Description

Acasti Pharma is a QC-based cardiovascular drug developer focused on proprietary krill oil-derived omega-3 phospholipid ester CaPre; pivotal Phase III hypertriglyceridemia data from pivotal TRILOGY I/II trials is pending



Source: Consensus Data - FactSet; Forecasts/Estimates - Echelon Wealth Partners

Exhibit 1 – Financial summary for Acasti Pharma

(C\$000, except EPS)	F2019A	F2020E	F2021E	F2022E	F2023E	F2024E	F2025E	F2026E	F2027E	F2028E
CaPre royalty revenue	\$0	\$0	\$0	\$28,935	\$60,207	\$93,959	\$114,048	\$135,606	\$158,720	\$183,480
Onemia/Vectos royalties	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Milestone revenue	\$0	\$0	\$5,000	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500	\$7,500
Total revenue	\$0	\$0	\$5,000	\$36,435	\$67,707	\$101,459	\$121,548	\$143,106	\$166,220	\$190,980
Revenue growth (%)	NA	NA	NA	629%	86%	50%	20%	18%	16%	15%
EBITDA	(\$18,328)	(\$13,328)	(\$3,328)	\$26,889	\$54,143	\$83,558	\$101,066	\$120,648	\$140,792	\$162,371
EBITDA growth (%)	NA	NA	NA	NA	101%	54%	21%	19%	17%	15%
EBITDA margin (%)	NA	NA	NA	74%	80%	82%	83%	84%	85%	85%
Net Income (ex one-time)	(\$21,800)	(\$16,800)	(\$4,692)	\$16,158	\$34,963	\$55,259	\$67,340	\$80,851	\$94,751	\$109,640
EPS (basic)	(\$0.28)	(\$0.20)	(\$0.06)	\$0.19	\$0.41	\$0.65	\$0.79	\$0.95	\$1.11	\$1.29
EPS (fd)	(\$0.21)	(\$0.16)	(\$0.04)	\$0.15	\$0.32	\$0.51	\$0.62	\$0.75	\$0.88	\$1.01
P/E (fd)	NA	NA	NA	19.1x	8.8x	5.6x	4.6x	3.8x	3.3x	2.8x
EV/EBITDA (fd)	NA	NA	NA	10.6x	5.3x	3.4x	2.8x	2.4x	2.0x	1.8x

Source: Historicals – Company Information (Acasti Pharma), Forecasts/estimates - Echelon Wealth Partners Inc.

Clearly REDUCE-IT data are directly germane to Vascepa's medical profile and indirectly germane to other omega-3 formulations, including CaPre, but we believe that the strong demonstration of cardiovascular benefit conferred by any one omega-3 formulation is positive to medical prospects for omega-3s as a category as well. Recall that peer firm AstraZeneca continues to fund its own REDUCE-IT-like cardiovascular risk assessment trial testing its own mixed omega-3 free fatty acid formulation Epanova in the 13,086-patient Phase IV STRENGTH trial, for which data on five-year major adverse cardiovascular event rate are expected during H220. We have long believed that AstraZeneca's sustained interest in funding a larger-than-REDUCE-IT trial was positive endorsement for the firm's view that omega-3 formulations in general and not EPA formulations specifically could confer overt cardiovascular benefit in combination with the serum triglyceride reduction that the category has long ago been shown to confer.

Exhibit 2 – Valuation Scenarios for Acasti Pharma

NPV, discount rate	5%	10%	15%	20%	25%	30%
Implied value per share	\$9.87	\$7.11	\$5.23	\$3.79	\$2.98	\$2.30
Price/earnings multiple, F2023	5x	10x	15x	20x	25x	30x
Implied share price ¹	\$2.89	\$2.59	\$2.33	\$4.10	\$1.90	\$1.58
EV/EBITDA multiple, F2023	5x	7.5x	10x	12.5x	15x	20x
Implied share price ^{1,2}	\$3.42	\$3.06	\$2.75	\$4.11	\$2.25	\$1.87
One-year APO target price	\$4.00					

¹ F2023 EPS (fd, fully-taxed) forecast of \$0.33; EBITDA of \$55.5M, discounted at 20%

² EV based on FQ220 cash of \$ 25.8M (includes \$8.7M in post-quarter warrant exercise) & total debt/debentures of \$1.9M, fd S/O 108.1MM (basic S/O 85.2M)

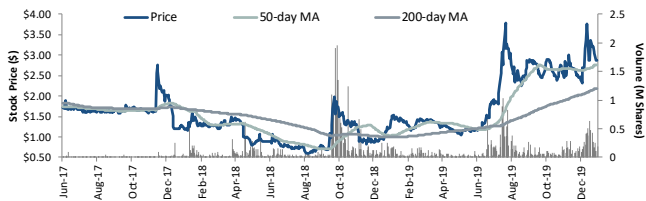
Source: Forecasts/estimates - Echelon Wealth Partners Inc.

Summary & valuation: We are **maintaining our Speculative BUY rating and PT of \$4.00 on ACST**, with our valuation as stated above still based on NPV (20% discount rate) and multiples of our F2023 adjusted EBITDA/EPS forecasts (Exhibits 1 & 2). Our forecasts are clearly driven primarily by Acasti's own Phase III data quality and so we are focused in the near term on the firm's TRILOGY I/II data readouts and specifically on magnitude of serum triglyceride lowering from baseline at three months that 4g/day CaPre dosing confers. Assuming CaPre performs to approvable standard – as all prior Phase II clinical data suggests that it could – Acasti's risk profile shifts to regulatory parameters and on timelines to 505(b)(2) submission and FDA review, for which the agency has a reasonable track record of opening

favorably on already-approved omega-3 formulations (Astra's Epanova is also already FDA-approved, though not yet launched, pending STRENGTH data quality). Though Acasti does have sales & marketing infrastructure already established within its own corporate framework, we do expect the firm to actively seek out US commercialization partners, as opposed to independently funding a transnational omega-3-dedicated sales team as Amarin is with Vascepa. Accordingly, we continue to project downstream CaPre sales based on a royalty revenue model (30% of gross sales), with more modest top-line performance offset by correspondingly more modest SG&A expense projections than would otherwise be reasonable under a direct sales model.

We still assume as a reasonable-case scenario that CaPre can sell for an average Rx price of US\$300/mo or US\$3,600 per annual course of therapy, net of rebates/discounts that will likely be relevant to driving initial Rx growth and to capture market share from other omega-3 forms. As before, our model projects FH222 CaPre royalty revenue of \$28.9M, increasing to \$60.2M in F2023 (the reference year in our EBITDA/EPS-based valuation methods, as indicated above) and \$94.0M in F2024. This corresponds to gross sales by Acast and future partners of US\$74.3M-US\$154.7M-US\$241.5M in F2022-F2024, all clearly conservative in comparison to Amarin's F2019/20 Vascepa revenue expectations of US\$425M-US\$650M-to-US\$700M, respectively. This implies a sequential annual elevation in Vascepa gross sales of at least US\$225M-to-US\$275M that Amarin expects through active promotion of Vascepa's REDUCE-IT-documented cardiovascular benefit.

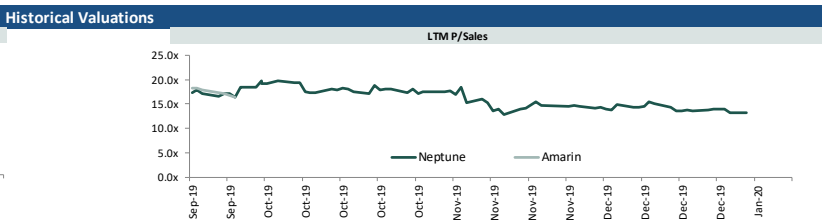
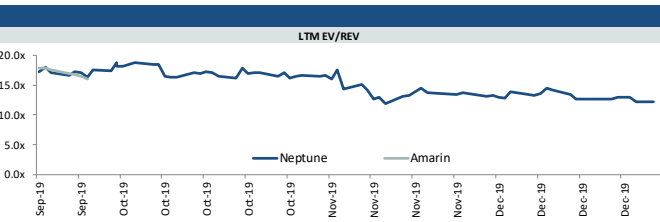
TEARSHEET - Acasti Pharma (ACST-V, \$2.87, BUY, PT: \$4.00)



Company Description

Acasti Pharma is a QC-based cardiovascular drug developer focused on proprietary krill oil-derived omega-3 phospholipid ester drug CaPre. Pivotal Phase III testing in severe hypertriglyceridemia is pending

Consensus		Return
Rating:	Buy	153.8%
Target:	\$7.28	203.1%
Median:	\$8.70	267.2%
High:	\$10.54	38.6%
Low:	\$3.98	
# Est:	5	
Consensus Distribution		
Sector Outperform/Buy		5
Sector Perform/Hold		0
Sector UnderPerform/Sell		0



Financial Summary/Key Metrics	F2018A	F2019A	F2020E	F2021E	F2022E	F2023E	F2024E
C\$000's except for per share data							
CaPre royalty revenue	0.0	0.0	0.0	0.0	28,934.6	60,207.1	93,959.1
Onemia/Vectos royalties	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Milestone revenue	0.0	0.0	0.0	5,000.0	7,500.0	7,500.0	7,500.0
Total Revenue	0.0	0.0	0.0	5,000.0	36,434.6	67,707.1	101,459.1
Growth y/y	NA	NA	NA	NA	NA	NA	NA
Cons. (CSMM)	0.0	0.0	0.0	5.0	36.4	67.7	101.5
Cons. 3 Mts. Ago (CSMM)	0.0	0.0	0.0	5.0	36.4	67.7	101.5
EBITDA	(16,095.0)	(18,328.0)	(13,328.0)	(3,328.0)	26,888.7	54,143.0	83,558.2
Margin	NA	NA	NA	NA	73.8%	80.0%	82.4%
Cons. (CSMM)	NA	NA	NA	NA	73.8%	80.0%	82.4%
Cons. 3 Mts. Ago (CSMM)	NA	(13.3)	(3.3)	27.5	55.4	85.6	103.5
Net Income (ex one-time)	(19,940.0)	(21,800.0)	(16,800.0)	(4,692.0)	16,157.5	34,963.0	55,259.5
EPS (basic)	(\$0.78)	(\$0.28)	(\$0.20)	(\$0.06)	\$0.19	\$0.41	\$0.65
Cons.	(\$0.95)	(\$0.54)	(\$0.30)	\$0.29	\$0.67	\$0.85	\$1.22
Cons. 3 Mts. Ago	(\$0.95)	(\$0.42)	(\$0.29)	\$0.19	\$0.52	\$0.57	\$0.96
P/E (fd)	NA	NA	NA	NA	19.1x	8.8x	5.6x
EV/EBITDA (fd)	NA	NA	NA	NA	10.6x	5.3x	3.4x

Key Statistics	Value
52-Wk High:	\$4.05 141.1%
52-Wk Low:	\$1.03 35.9%
Avg Vol (3-Mo)	0.73
Shares O/S:	85.3
Market Cap:	244.9
Net Debt (\$M):	1.9
Ent. Value (\$M):	214.6
Div Yield:	0.0%
Website:	http://www.acastipharma.com
FYE:	Mar 31
Employees:	N/A

Summary of CaPre development milestones	Date
Final data from 230 patient Phase II open-label COLT study	Aug-13
Final data from 387 patient Phase II TRIFECTA study	Sept-14
Final data from 56-patient CaPre/Lovaza bridging study	Sept-16
End-of-Phase II FDA meeting sets Phase III study design	Mar-17

Summary of expected CaPre milestones	Date
Commence enrollment in pivotal Trilogy Phase III hypertriglyceridemia trial	CQ118
Phase III Trilogy I/CaPre final blood lipid data	CQ419
FDA approval/launch, CaPre	CH121-CH221

Top Inst. Ownership	M Shares	% Held
Perceptive Advisors LLC	1.78	2.1%
Peconic Partners LLC	0.35	0.4%
Two Sigma Advisers LP	0.34	0.4%
Renaissance Technologies LLC	0.25	0.3%
BMO Asset Management Corp.	0.25	0.3%
Arrow Capital Management, Inc.	0.19	0.2%
Monetta Financial Services, Inc.	0.10	0.1%
AlphaNorth Asset Management	0.07	0.1%
Geode Capital Management LLC	0.06	0.1%
Oppenheimer & Co., Inc. (Wealth Management)	0.06	0.1%

Valuation			
NPV, discount rate		15%	20%
Implied value/share ¹	\$5.23	\$3.79	\$2.98
Price/F2018 Earnings Multiple	15.0x	20.0x	25.0x
Implied value/share ¹	\$2.33	\$4.10	\$1.90
EV/F2018 EBITDA Multiple	10.0x	12.5x	15.0x
Implied value/share ¹	\$2.75	\$4.11	\$2.25
One year Acasti Target Price (C\$)¹	\$4.00		

¹ Based on F2023 EPS (fd, fully-taxed) forecast of \$0.33; EBITDA of \$55.5M, discounted at 20%; EV based on FQ220 cash of \$25.2M (includes \$8.7M in post-quarter warrant exercise) & total debt/debtures of \$1.9M, fd S/O 108.1MM (basic S/O 85.2M)

Comparables and Peer Analysis										% Return				Consensus Valuations			
Ticker	Trading	Current	Target	Dividend	Market	Ent.	1-Week	1-Month	3-Month	1-Year	T12	2019E	2020E	T12	2019E	2020E	
ACST	CAD	\$2.87	\$4.00	0.0%	39.4%	244.9	10.3%	17.6%	9.5%	135.2%	(40.6)	(13.3)	(3.3)	(50.77)	(\$0.54)	(\$0.30)	
Amarin Corporation Plc Sponsored ADR	AMRN	USD	\$21.23	\$28.91	0.0%	36.2%	7,590.3	(1.0%)	(5.4%)	45.5%	50.9%	(78.6)	(30.4)	8.7	(\$0.27)	(\$0.11)	\$0.07
Correvio Pharma Corp.	CORV	CAD	\$0.55	\$4.63	0.0%	742.1%	27.8	1.9%	(68.4%)	(76.3%)	(81.7%)	(31.1)	(27.7)	(15.6)	(\$1.20)	(\$1.00)	(\$0.55)
Matinas BioPharma Holdings, Inc.	MTNB	USD	\$2.07	\$4.00	0.0%	93.2%	336.9	(8.8%)	7.8%	195.7%	181.6%	(16.8)	0.0	0.0	(\$0.13)	(\$0.13)	(\$0.17)
Resverlogix Corp.	RVX	CAD	\$1.23	N/A	0.0%	NA	257.6	0.0%	(13.4%)	24.2%	(63.8%)	(48.7)	0.0	0.0	\$0.16	NA	NA
Aker ASA Class A	AKER	NOK	NOK 547	NOK 699	4.1%	31.9%	NOK 40,654	0.6%	9.5%	18.9%	13.4%	3,813.0	(261.0)	(254.5)	-NOK 13.73	NOK 33.94	NOK 43.41
Average					0.7%	188.5%		(2.9%)	(8.7%)	36.3%	39.3%						

Comparables - Multiples Analysis																		
	FCF Yield			Current - EV/EBITDA			Target - EV/EBITDA			EV/Revenue			P/E			P/CFPS		
	T12	2019E	2020E	T12	2019E	2020E	T12	2019E	2020E	T12	2019E	2020E	T12	2019E	2020E	T12	2019E	2020E
Acasti Pharma Inc. Class A	(18.3%)	NA	NA	NA	NA	NA	NA	NA	NA	NA	488.4x	41.8x	NA	NA	NA	-6.4x	1.2x	-0.2x
Amarin Corporation Plc Sponsored ADR	(1.3%)	(0.0%)	1.2%	NA	NA	859.7x	NA	NA	NA	24.3x	16.5x	10.0x	NA	NA	292.7x	(85.0x)	0.0x	0.0x
Correvio Pharma Corp.	(28.4%)	NA	NA	NA	NA	NA	NA	NA	NA	1.5x	1.5x	1.1x	NA	NA	NA	(0.7x)	-0.7x	-0.3x
Matinas BioPharma Holdings, Inc.	(12.1%)	NA	NA	NA	NA	NA	NA	NA	NA	NA	2960.2x	172.4x	NA	NA	NA	(28.1x)	0.0x	0.0x
Resverlogix Corp.	(18.3%)	NA	NA	NA	NA	NA	NA	NA	NA	NA	0.0x	0.0x	7.8x	NA	NA	(5.7x)	0.0x	0.0x
Aker ASA Class A	NA	3.4%	8.2%	8.1x	NA	NA	NA	NA	NA	0.7x	0.0x	0.0x	NA	16.1x	12.6x	16.2x	0.0x	0.0x
Average				8.1x	NA	NA	NA	NA	NA	8.8x	577.8x	37.6x	NA	16.1x	152.7x	NA	0.1x	-0.1x

¹ Targets, forecasts and valuations reflect consensus estimates derived from Factset

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Company: Acasti Pharma | ACST:TSXV

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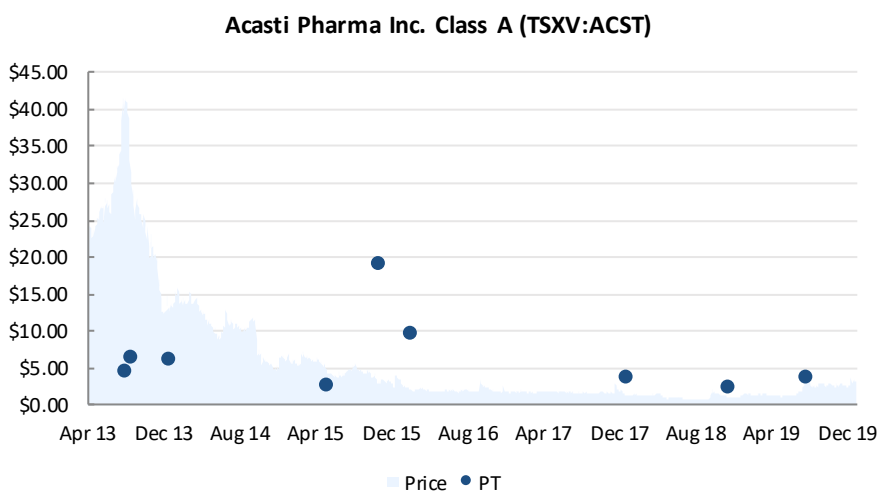
RATING DEFINITIONS

Buy	The security represents attractive relative value and is expected to appreciate significantly from the current price over the next 12 month time horizon.
Speculative Buy	The security is considered a BUY but in the analyst's opinion possesses certain operational and/or financial risks that are higher than average.
Hold	The security represents fair value and no material appreciation is expected over the next 12-18 month time horizon.
Sell	The security represents poor value and is expected to depreciate over the next 12 month time horizon.
Under Review	While not a rating, this designates the existing rating and/or forecasts are subject to specific review usually due to a material event or share price move.
Tender	Echelon Wealth Partners recommends that investors tender to an existing public offer for the securities in the absence of a superior competing offer.
Dropped Coverage	Applies to former coverage names where a current analyst has dropped coverage. Echelon Wealth Partners will provide notice to investors whenever coverage of an issuer is dropped.

RATINGS DISTRIBUTION

Recommendation Hierarchy	Buy	Speculative Buy	Hold	Sell	Under Review	Restricted	Tender
Number of recommendations	50	42	18	1	7	0	4
% of Total (excluding Restricted)	42%	36%	15%	1%	6%		
Number of investment banking relationships	14	19	5	0	2	0	0
% of Total (excluding Restricted)	35%	48%	13%	0%	5%		

PRICE CHART, RATING & PRICE TARGET HISTORY



Date	Target (C\$)	Rating
25 Jul 2013	\$4.75	Spec Buy
13 Aug 2013	\$6.75	Spec Buy
18 Dec 2013	\$6.25	Spec Buy
4 May 2015	\$2.75	Spec Buy
19 Oct 2015	\$19.25	Spec Buy
28 Jan 2016	\$10.00	Spec Buy
21 Dec 2017	\$4.00	Spec Buy
15 Nov 2018	\$2.50	Spec Buy
25 Jul 2019	\$4.00	Spec Buy

Coverage Initiated: Jul 25, 2013

Data sourced from: FactSet

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