

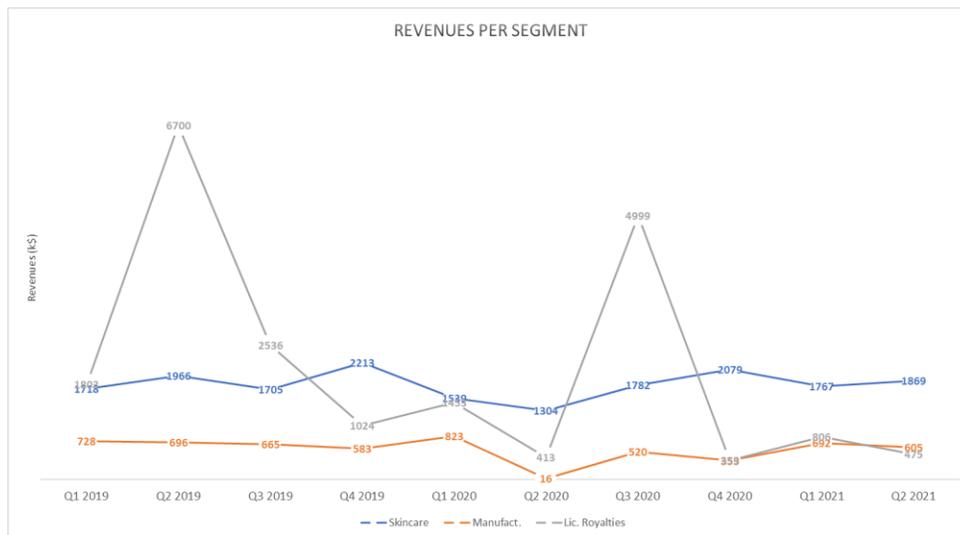
Crescita Therapeutics TSX: CTX, H1 2021 Update

The Canadian microcap recovers from the COVID-19 crisis



H1 2021 Update

On the 13th of January 2021 we released our first report in New Vila about Crescita Therapeutics. 8 months since the release and we can say that the investment thesis has slightly changed.



Below I have summarized the most important events during these last 8 months:

- On March 16, the United States Patent and Trademark Office granted U.S. Patent and Orange Book listable against CTX-102 once the product is approved.
- In April, Crescita launched New Cellular Treatment Factor® (“NCTF”) in the Canadian medical aesthetics market.
- During Q1, the company recognized US\$637 of the US\$1,000 annual minimum royalties under their licensing agreement with Taro due to the continued shortfall of the U.S. sales of Pliaglis.
- 28th of June, the company announced that it has entered into an exclusive commercialization and development license agreement with Croma Pharma GmbH for the rights to Pliaglis in nine countries including Germany, the United Kingdom, Ireland, Switzerland, Brazil, Romania, Belgium, the Netherlands and Luxembourg. Croma expects to launch Pliaglis throughout 2022.
- The company received an important manufacturing order of approximately \$7M over the next 12 months.
- During Q2, Taro continues to struggle with the sale of Pliaglis in the U.S.
- Crescita and a subsidiary of STADA announced an exclusive commercialization and development license agreement for the exclusive rights of Pliaglis, in 15 countries in the Middle East and North Africa (“MENA”) region.

Pliaglis in the U.S.

Sales of Pliaglis in the U.S. have stopped since Crescita announced the amendment issue in Q4 2019. We have consulted the management and the situation is complex.

We don't want to go into detail but right now the way Taro was distributing Pliaglis, and its "authorized generic" is no longer possible. The company is still looking for different options to tackle the issue and to continue distributing the product. This amendment only occurs in the U.S. and does not affect ROW sales.

During 2020-2021, Crescita has made the proper moves to find partners for the exclusive distribution of Pliaglis. To date, the company has licensed Pliaglis in almost every country and demotivate a generic to compete in these regions. But, in this business, nothing is certain, and the scenario may change.

Crescita has signed an exclusive license agreement with upfronts and milestone royalties that will be collected from H2 2021 which will provide Crescita with extra cash available for M&A.

In conclusion, we are a little bit more pessimistic about the sales of Pliaglis than in January. Our main thesis revolves around the distribution of Pliaglis, and we see a drop in expectations for the future in this segment. Worst case, Crescita will receive a minimum of 1M\$ per year in royalties for the U.S. region.

Skincare Segment

On the other hand, we had very good news from the Skincare segment. The company has managed to develop an e-commerce channel direct to consumers. Due to COVID, traditional channels were shut down, and the company made the proper decisions and investments to keep the revenues.

From now on, both channels will provide Crescita with higher revenues and the company is very optimistic about it. We believe that this segment can grow in the following years.

Manufacturing

In the latest report, the CEO announced very good news for this segment (Actually we were very pessimistic with the manufacturing facility). The company has signed a 7M\$ order for the following 12 months, which will be an increase of 411% in manufacturing revenues compared to FY2020.

Although the company signs annual manufacturing contracts, we think this agreement could lead to long term and recurrent production for Crescita's facility.

M&A status

The company has been under blackout for this reason (M&A negotiations) since the end of 2020. We have asked management about this, and they have stated that lately more and more resources are being put into mergers and acquisitions. We can expect an announcement of M&A anytime.

We got informed that due to the new hire, François Lafortune, the current CEO, Serge, will delegate most of his daily responsibilities and focus on the M&A options. Good sign for investors.

Simple valuation

Below, you can find what we can expect in the following year:

- Skincare may grow but I am conservative and assume 7.5M\$ annual revenues
- Licensing including recurrent royalties and some upfront may reach 2.6M\$ (1M\$ secured from the U.S.)
- Manufacturing will beat our previous estimations, we can expect 8M\$ revenues.

Segment	Item	Quarter (M\$)	Annual (M\$)
Skin Care	Revenue	1869	7476
	Gross Margin	59.8%	59.8%
	Gross Profit	1118	4471
Licensing	Revenue	650	2600
	Gross Margin	90.0%	90.0%
	Gross Profit	585	2340
Manufacturing	Revenue	2000	8000
	Gross Margin	45.0%	45.0%
	Gross Profit	900	3600
Total Gross Profit		2603	10411
R&D		130	520
SGA		1850	7400
D&A		330	1320
Profit before Tax		293	1171
Net Income		249	995

Net income could reach 1M\$. We can also assume that at least 10M\$ will go to M&A in the following year and that the company will pay a P/E ratio of x13. This leaves a net income of around 1.7M\$. This is just a guess.

This simple valuation does not consider positive optionalities like the launch of new products (CTX-102) or new joint ventures.

In New Vila Equity Research we maintain our Price Target above 1.5\$, the same Price Target of our first [research](#).

Conclusion

Although the sale of Pliaglis has been bad news for the thesis, we still can buy a company at almost net cash which is actively looking for M&A and has two segments (Skincare and Manufacturing) that are improving their revenues, beating our expectations.

In the last 12 months, the company has been able to sign an exclusive license agreement for Pliaglis in almost every region and although they may not be the royalties we expected a few months ago, will give recurrent cash flows to the company.

We also believe that the M&A may also allow them to gain scale and reduce their fixed costs which are currently very high compared to their revenues.

In New Vila Equity Research, we have a relevant position in the company, and we expect a bright future for Crescita and its shareholders.

Don't forget we publish our investment thesis on our [website](#), please check it out if you haven't read it already.

Rodrigo Villanueva, Founder of New Vila Equity Research

www.newvilaresearch.com

(+47) 96706806

rvillanueva@newvilaresearch.com

About me and New Vila Equity Research

My name is Rodrigo Villanueva, I am the founder of New Vila Equity Research.

I created the firm to show my analytical skills, passion for investing and the way I analyze/invest in companies. I am looking for an opportunity in the asset management sector, open to discuss investment and working/collaborate with investment institutions. If you are interested, please contact me through email, rvillanueva@newvilaresearch.com.

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