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Palatin Technologies

Specialty Pharmaceuticals

US Equity Research
10 February 2017

BUY
unchanged

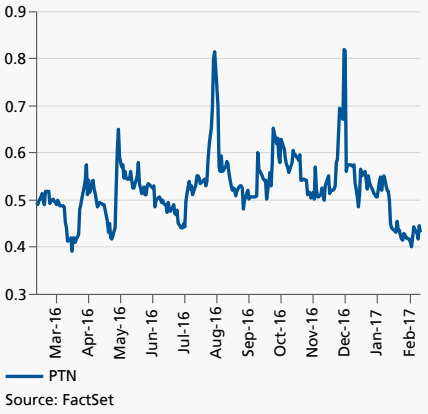
PRICE TARGET	US$6.00
unchanged	
Price (9-Feb)	US$0.43
Ticker	PTN-NYSE:MKT

52-Week Range (US$):	0.36 - 0.86
Avg Daily Vol (M) :	138.1
Market Cap (US$M):	76.5
Shares Out. (M) :	177.8

FYE Jun	2016A	2017E	2018E
Revenue (US$M)	0	0	100
EPS Adj&Dil (US$)	(0.33)	(0.22)↑	(0.03)
Previous	-	*(0.23)*	-

Quarterly Revenue	Q1	Q2	Q3	Q4
2016A	0	0	0	0
2017E	0A	0	0	0
2018E	-	-	-	-

Quarterly EPS Adj&Dil	Q1	Q2	Q3	Q4
2016A	(0.08)	(0.08)	(0.08)	(0.09)
2017E	(0.08)A	(0.06)	(0.05)	(0.04)
2018E	-	-	-	-



Source: FactSet

Priced as of close of business 9 February 2017

Palatin Technologies is a biopharmaceutical company developing targeted, receptor-specific peptide therapeutics.

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Estimates Revised

Rekynda now partnered with AMAG, pipeline moves ahead

Favorable deal with AMAG, fits with Makena

PTN is entitled to tiered, high single-digit to low double-digit royalties on Rekynda in North America, and we believe that Rekynda fits well with Makena for pre-term birth. We see AMAG as an ideal partner for PTN, given the former's experience in women's health product development, and anticipate AMAG to provide the critical salesforce and experience to successfully launch Rekynda™. PTN expects Rekynda™ NDA filing in early 2018, and approval and launch in 2019.

Expect full Phase 3 data presentation in 2017

We expect PTN to present full Phase 3 data for Rekynda in early 2017, and we will pay particular attention to satisfying sexual event (secondary endpoint), which will be important for commercialization. We also look to learn more regarding long-term patient safety.

Pipeline moving forward in 2017

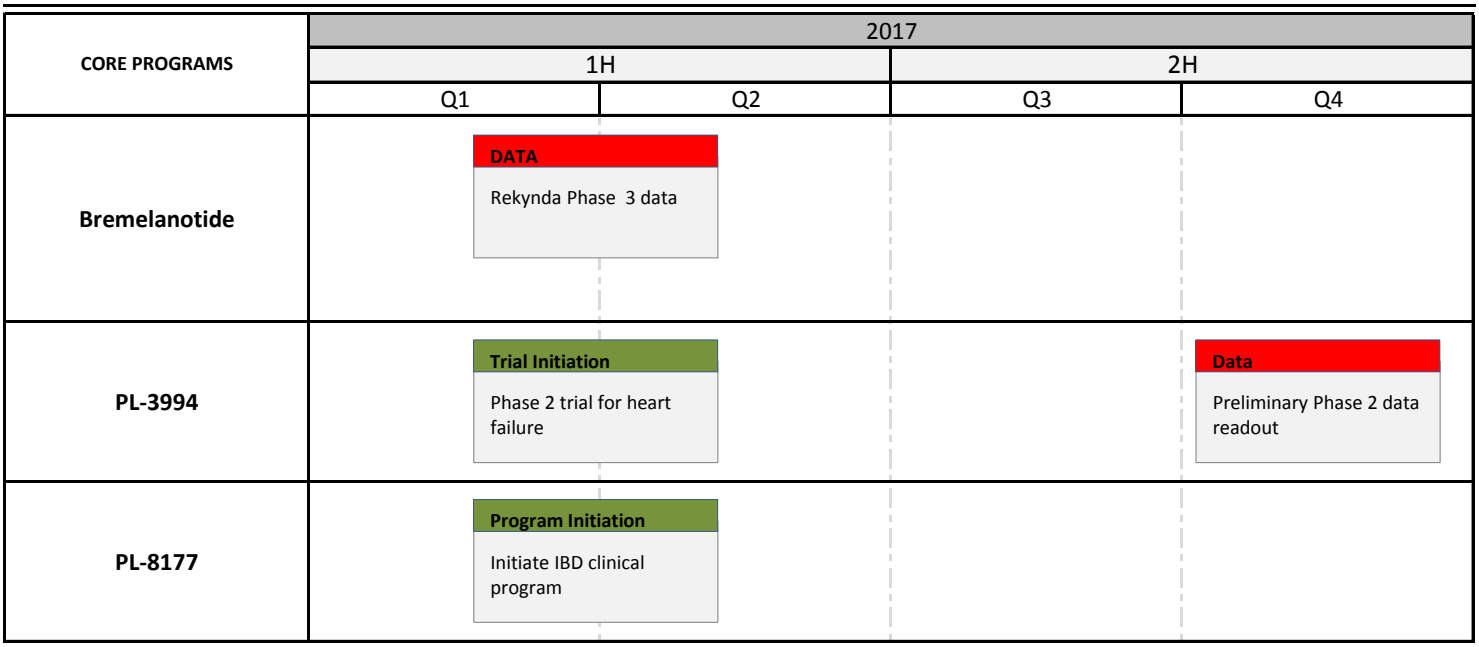
Within heart failure treatment space, PTN is planning Phase 2 trial for PL-3994 to evaluate its safety and efficacy for heart failure in 1H17; and preliminary data readout expected by end of 2017. In addition, PTN plans to complete required preclinical work for PL-5028 in preparation for Phase I trial in 1H18. For the inflammatory bowl disease space, PTN is planning to initiate the IBD clinical program for PL-8177 1H17, with Phase 2 POC study in 2018, and to complete required preclinical work in preparation for PL-8331 Phase 1 trial in 1H18. We will be paying close attention on the development and viability of these clinical programs.

Maintain BUY, $6 PT

We maintain our BUY rating and $6 price target based on our NPV valuation. We expect primary and secondary endpoints for Rekynda™ such as satisfying sexual events to be positive and provide support to the stock price.

For important information, please see the Important Disclosures beginning on page 4 of this document.

Figure 1: PTN - upcoming expected catalysts



Source: Company Reports, Canaccord Genuity estimates

Figure 2: PTN - valuation

Product	Peak Sales/Royalty ($MM)	Year	NPV at launch	Probability Adjustment	Current Value ($MM)	Value / Share
Bremelanotide						
US	$828	2024	$1,009	75%	$765	$5
Ex-US	$331	2024	$171	75%	$128	$1
Total Product Value					**$893**	**$6**
Cash					$22	$0.1
Total Equity Value					**$914**	**$6**
Shares Outstanding (MM)					156	

Risk-Free Rate	3.0%
Beta	1.8
Risk Premium	4%
Discount Rate	10%

Source: Company Reports, Canaccord Genuity estimates

Figure 3: PTN – Income statement

Palatin Technologies

($000's) [FY - JUN]	2016A	1Q17A	2Q17E	3Q17E	4Q17E	2017E	2018E	2019E	2020E
Revenues (000's)									
Bremelanotide									
US	-	-	-	-	-	-	97,603	158,060	234,286
Ex-US royalty						-	2,130	6,832	12,448
Total revenues (royalty)	**-**					**-**	**99,733**	**164,892**	**246,733**
Income Statement ($000's)	**2016A**	**1Q17A**	**2Q17E**	**3Q17E**	**4Q17E**	**2017E**	**2018E**	**2019E**	**2020E**
License and contract - Gedeon Richter	-	-	-	-	-				
Total Revenue	**-**	**-**	**-**	**-**	**-**	**-**	**99,733**	**164,892**	**246,733**
COGS							11,968	19,787	29,608
Gross Profit	**-**					**-**	**87,765**	**145,105**	**217,125**
Operating expenses									
Research and Development	43,071	11,226	8,135	6,508	5,857	31,725	31,914	47,819	54,281
SG&A	6,179	1,209	1,306	1,703	1,703	5,922	60,922	63,968	67,167
Total Operating Expense	**49,250**	**12,435**	**9,441**	**8,211**	**7,560**	**37,647**	**92,837**	**111,787**	**121,448**
Income (loss) from operations	**(49,250)**	**(12,435)**	**(9,441)**	**(8,211)**	**(7,560)**	**(37,647)**	**(5,072)**	**33,318**	**95,677**
Investment income	50	7	6	10	10	33	34	36	38
Interest expense	(2,513)	(624)	(595)	(317)	(317)	(1,853)	(839)	(273)	-
Increase in fiar value of warrants									
Gain (loss) on disp of supplies and equipment									
Foreign exchange transaction loss		-	-	-	-				
Pre-tax income (EBT)	**(51,713)**	**(13,053)**	**(10,029)**	**(8,518)**	**(7,867)**	**(39,467)**	**(5,038)**	**33,354**	**95,715**
Income tax benefit									
Net Income	**(51,713)**	**(13,053)**	**(10,029)**	**(8,518)**	**(7,867)**	**(39,467)**	**(5,038)**	**33,354**	**95,715**
Adjustments to Net income									
GAAP EPS	**($0.33)**	**($0.08)**	**($0.06)**	**($0.05)**	**($0.04)**	**($0.22)**	**($0.03)**	**$0.19**	**$0.53**
Adjusted EPS excl options expense									
Diluted Weighted Average Shares	156,554	165,848	177,799	179,576	181,372	176,149	177,910	179,689	181,486

Source: Company Reports, Canaccord Genuity estimates

A more detailed financial model, including balance sheet, income statement, and cash flow projections, if available, may be obtained by contacting your Canaccord Genuity Sales Person or the Authoring Analyst, whose contact information appears on the front page of this report.

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Investment Recommendation

Date and time of first dissemination: February 10, 2017, 08:26 ET

Date and time of production: February 10, 2017, 08:26 ET

Target Price / Valuation Methodology:

Palatin Technologies - PTN

Our $6 price target is based on a probability adjusted NPV valuation.

Risks to achieving Target Price / Valuation:

Palatin Technologies - PTN

The FDA may deny or delay approval of any application for Bremelanotide if the agency determines that the clinical data do not adequately establish the safety of the drug, even if efficacy is established. Additionally, although phase 2B clinical trials for FSD demonstrated an acceptable safety profile and statistically significant efficacy with the 1.75 mg dose, results obtained in the larger Phase 3 clinical trials may not show the same outcomes. Specifically, the endpoints for the phase 3 study are slightly different than the phase 2B study, which increases the risk of a negative trial. However, when Palatin re-analyzed the phase 2B data with these new phase 3 endpoints, the 1.75 mg dose continued to demonstrate statistical significance in all endpoints vs. placebo, which gives confidence in a positive outcome for the pivotal trials.

The regulatory landscape in approving drugs for female sexual dysfunction has not been favorable historically, as multiple drugs have been denied by the agency due to lack of clear clinical benefit and safety risks. Specifically, Flibanserin has been denied FDA approval when submitted by Boehringer Ingelheim in the past due to cognitive safety risks, and when Sprout Pharmaceuticals re-submitted the drug with additionally safety data, the agency again denied approval with a CRL. Therefore, we believe there is risk with the FDA regulatory pathway, which may not believe the endpoints of Sexual Satisfying events and Female Sexual Function Index (FSFI) of the phase 3 Bremelanotide trials is convincing enough for the drug's approval.

Palatin does not have control over the development of compounds in the MC4r platform for obesity, since all development decisions are based on AstraZeneca. Based on a serious adverse event, AstraZeneca has decided to discontinue development of AZD2820, a subcutaneously-administered peptide melanocortin-4 receptor partial agonist. AstraZeneca may decide to abandon further development of this program, including terminating the agreement, if the results of further development efforts are negative or inconclusive, which can negatively affect the stock.

Palatin is also likely to need substantial additional funding going forward, potentially creating downward pressure related to financing. The company may seek out additional fudding through the equity markets, which could impact the price of Palatin's stock price if investors believe they will experience meaningful dilution. Additionally, Research and development costs may be higher than we have anticipated, requiring additional capital and potential dilution. Palatin expects to continue to incur substantial operating losses for the foreseeable future. The company may never become profitable, or profitability may take much longer than originally anticipated, disappointing some investors and resulting in downside to the share price.

Distribution of Ratings:

Global Stock Ratings (as of 02/10/17)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	587	61.15%	36.97%
Hold	279	29.06%	16.49%
Sell	32	3.33%	18.75%
Speculative Buy	62	6.46%	72.58%
	960*	100.0%	

*Total includes stocks that are Under Review

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HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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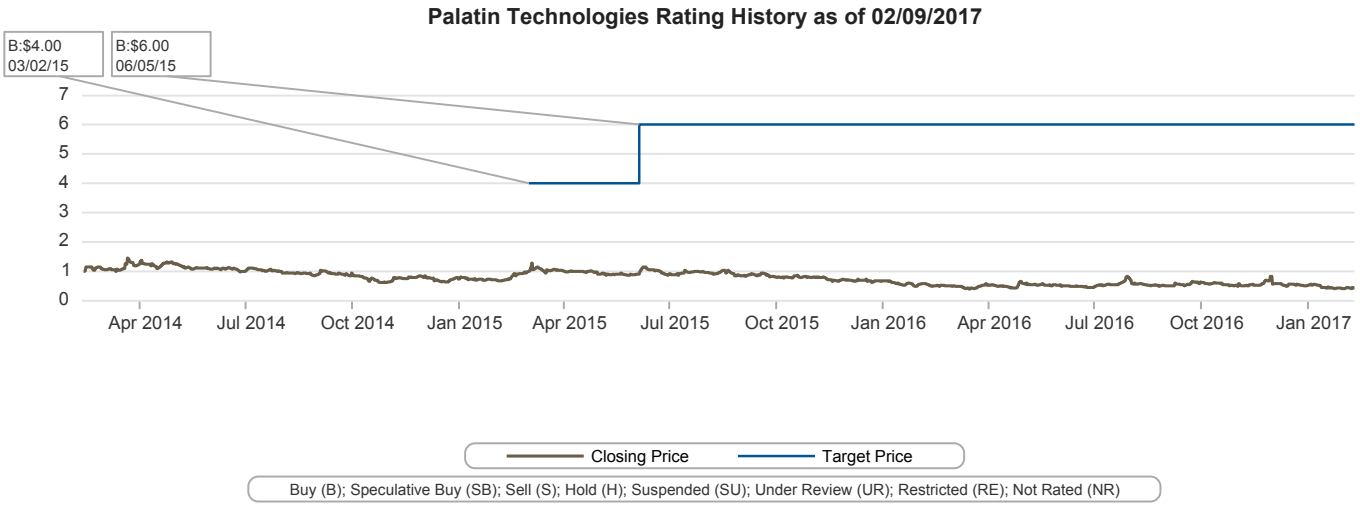

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