FROST & SULLIVAN

RESEARCH & CONSULTING LTD.

Quarterly Report **November 27, 2017**

RedHill Biopharma Ltd.: Q3 results did not meet expectations mainly with GI drug sales; financially, capital raising of $20.6M (NIS 1.94 per share) positions Redhill with sufficient funds until 2018.

Primary exchange: TASE

Secondary exchange (ADS/share 1:10): NASDAQ

Symbol: TASE, NASDAQ: RDHL

Sector: Biotechnology

Sub-sector: Drug Development

Stock target price: NIS 2.41

As of 26 November, 2017

(source: TASE)

Closing price: NIS 1.77

Market cap: NIS 376.7M

# of shares: 212.7M

Stock performance (YTD): -61%

Daily-trading-vol. (12 months): NIS 1.2 million

Kobi Hazan - Lead Analyst

Analysts
Dr. Anna Cirmirakis*
Dr. Tiran Rothman

Frost & Sullivan Research & Consulting Ltd.
***) Frost & Sullivan**

Email: Equity.Research@frost.com
Tel.: +972-9-9502888
www.frost.com/EquityResearch

Company overview

RedHill Biopharma Ltd. ("the Company" and/or "RedHill") is an Israeli publically-traded specialty biopharmaceutical company focused on the development and commercialization of late clinical-stage drugs candidates. The Company's main focus is advanced clinical development and commercialization in the US of orally-administered, proprietary, small molecule drugs for the treatment of gastrointestinal and inflammatory diseases and cancer.

RedHill is currently promoting three gastrointestinal products and is advancing multiple clinical programs: three Phase III for gastrointestinal and inflammation indications and multiple Phase II for various indications including multiple myeloma, hepatocellular carcinoma, pancreatic cancer, and irritable bowel syndrome with diarrhea.

Highlights

The company published its quarterly report on the 20th of November 2017, addressing few recent milestones and achievements:

- RedHill has no loans, with $39.6 million in cash at the end of the third quarter of 2017. In addition, in an underwritten public offering of the Company's American Depositary Shares (ADSs, November 13, 2017), the company raised net proceeds of approximately $20.6M ($5.5 per 1 ADS).
- Net. revenues of approximately $1.5 million in Q3/2017 from the promotion of three GI-specialty products in the U.S., Donnatal®, EnteraGam® (launched in June) and Esomeprazole Strontium Delayed-Release Capsules 49.3 mg (launched mid-September).
- Top-line results from the first Phase III study with RHB-104 for Crohn's disease (MAP US study) expected in mid-2018; patient enrollment completed.
- Top-line results from the confirmatory Phase III study with TALICIA™ (RHB-105) (ERADICATE HP2 study) for the treatment of *H. pylori* infection, expected in H2/2018.
- Initiation of pivotal Phase III study with RHB-104 for first line treatment of Nontuberculous Mycobacteria (NTM) infections expected in H1/2018.
- Successful top-line results from the Phase II study with BEKINDA® (RHB-102) 12 mg for the treatment of diarrhea-predominant irritable bowel syndrome (IBS-D).

Analysis

- We addressed RedHill's new strategy in forming a sales force in the US in our initiation report dated July 12th, 2017. After years of successfully implementing a "standard" drug development strategy, with a business model based on licensing out its IP, the company has decided to expand its strategy and set up a sales organization in the US that will drive revenues from selling drugs.
- According to the company Q3 report, Redhill sales of its two GI drugs in the Q3 were $1M, lower to our initial estimated $3.5M. **Our assumptions were based on 10% revenue sharing from GI drug sales. The Company did not disclose detailed information on sales and revenues progress such as revenues per drug, revenue sharing models, number of customers, etc.**
- **We now assume that revenues for 2017 will be lower than was predicted by us and have modified the revenue models accordingly.**
- **Financially, RedHill maintains a debt-free balance sheet with $39.6M cash at the end of the third quarter of 2017, with additional $20.6M from its capital raising (total of $60.2M).**
- **The company raised capital in a $5.5 per 1 ADS (NIS 1.94 per share) at a discount. It is also worth mentioning that overall RedHill's share decreased at about 60% last month.**
- **Thus, upside remains, but we evaluate the company's equity value at $145.4 million/NIS 511.8M (previously was $214.1M/NIS 762.2M) ; and stock target price ranges between NIS 2.35-NIS 2.47 (a mean of NIS 2.41).**

Quarterly updates

Public offering

Redhill announced the closing underwritten public offering of 4,090,909 American Depositary Shares ("ADSs"), each representing ten of its ordinary shares, at a public offering price of $5.50 per ADS. Gross proceeds from the sale of the ADSs by RedHill before underwriting discounts and commissions and other offering expenses were approximately $22.5 million. RedHill has also granted the underwriters a 30-day option to purchase up to 613,636 additional ADSs at the public offering price.

Financial analysis of Q3 financial report

Financial highlights for the quarter ended September 30, 2017 Net Revenues for the third quarter of 2017 were approximately $1.5 million, compared to $0.5 million in the second quarter of 2017. The increase was due to the promotional activities of Donnatal®3 and the sale of EnteraGam®4 and the initial promotion of Esomeprazole Strontium Delayed-Release Capsules 49.3 mg5 in mid-September 2017.

Cost of Revenues for the third quarter of 2017 was $0.9 million, due to the sale of EnteraGam®, compared to $0.3 million in the second quarter of 2017, also due to the sale of EnteraGam® and reflecting the cost of goods sold and royalties. Gross Profit for the third quarter of 2017 was $0.6 million, compared to $0.2 million in the second quarter of 2017. The increase was due to higher revenues from the sale of EnteraGam® and from the promotion of Donnatal® and due to the initial promotion of Esomeprazole Strontium Delayed-Release Capsules 49.3 mg in mid-September 2017.

Research and Development Expenses for the third quarter of 2017 were $8.1 million, an increase of $1.1 million or 15% compared to the third quarter of 2016. The increase was mainly due to the ongoing confirmatory Phase III study with TALICIA™ (RHB-105) for H. pylori infection, the Phase III and Phase II studies with BEKINDA® (RHB-102) for gastroenteritis and IBS-D, respectively, and the ongoing and planned studies with YELIVA® (ABC294640)7 for multiple indications. Research and Development Expenses for the third quarter of 2017 decreased by $0.3 million or 4% compared to the second quarter of 2017.

General and Administrative Expenses for the third quarter of 2017 were $2.3 million, an increase of $1.2 million compared to the third quarter of 2016. General and Administrative Expenses for the third quarter of 2017 increased by $0.3 million compared to the second quarter of 2017. The increase from the comparable periods was mainly due to the establishment and advancement of the Company's U.S. commercial operations in the first quarter of 2017. Selling, Marketing and Business Development Expenses for the third quarter of 2017 were $4.2 million, an increase of $3.8 million compared to $0.4 million in the third quarter of 2016, comprised only of Business Development Expenses. Selling, Marketing and Business Development Expenses for the third quarter of 2017 increased by $0.8 million or 24% compared to the second quarter of 2017. The increase from the comparable periods was mainly due to the establishment and advancement of the Company's U.S. commercial operations. The Company recognized Selling and Marketing Expenses in 2017 for the first time.

Operating Loss for the third quarter of 2017 was $14 million, an increase of $5.5 million or 65% compared to the third quarter of 2016. Operating Loss for the third quarter of 2017 increased by $0.4 million or 3% compared to the second quarter of 2017. The increase from the comparable periods was mainly due to an increase in Selling, Marketing and Business Development Expenses, Research and Development Expenses, and General and Administrative Expenses, as detailed above. Financial Expenses, net for the third quarter of 2017 was $1.5 million, an increase of $1.1 million compared to the third quarter of 2016. Financial Income, net for the second quarter of 2017 was $2.5 million. The

changes from the comparable periods were mainly due to variations in the fair value of the derivative financial instruments, which is affected by share price variations.

Net Cash Used in Operating Activities for the third quarter of 2017 was $10.6 million, an increase of $3.2 million or 43% compared to the third quarter of 2016. The increase was mainly due to the increase in Operating Loss.

Cash Balance as of September 30, 2017, was $39.6 million, a decrease of $26.7 million, compared to $66.3 million as of December 31, 2016, and a decrease of $11.6 million compared to June 30, 2017. The decrease was a result of the ongoing operations, mainly related to research and development activities and the establishment and advancement of the U.S. commercial operations.

Analysis

We addressed RedHill's new strategy in forming a sales force in the US in our initiation report dated July 12th, 2017. After years of successfully implementing a "standard" drug development strategy, with a business model based on licensing out its IP, the Company has decided to expand its strategy and set up a sales organization in the US that will drive revenues from selling drugs.

Redhill sales of its two GI drugs in the Q3 were $1M. Although the company still expanding its sales force as we can see in the expenses side, we have some concerns on its future sales. Our data (based on the Orange book which contains all drugs sales data) indicates, for example, that before Redhill was granted the rights for distribution of Donnatel, sales were $142M in 2015 and $139M in 2016. We have assumed in our model similar sales with 10% revenues sharing based on our assumptions, i.e. Redhill annual revenues were estimated in approximately in $14M or in other words a $3.5M for one quarter.

We now assume that revenues for 2017 will be lower than was predicted by us and have modified the revenue models accordingly. Financially, RedHill maintains a debt-free balance sheet with $39.6M cash at the end of the third quarter of 2017 with additional $20.6M from its capital raising (total of $60.2M). The company raised capital in a $5.5 per 1 ADS (NIS 1.94 per share) at a discount. It is also worth mentioning that overall RedHill's share decreased at about 60% last month.

Thus, we evaluate the company's equity value at $145.4 million/NIS 511.8M (previously was $214.1M/NIS 762.2M); and a target price range of NIS 2.35-NIS 2.47 (a mean of NIS 2.41).

Upcoming Potential Catalysts

Program	Event	Significance	Timeline	Update
BEKINDA® - RHB-102 (gastroenteritis & IBS-D)	Top-line Phase II results (IBS-D)	Medium	**Sep 2017**	**Achieved**
	Top-line Phase III results (gastroenteritis)	Medium	**Mid-2017**	**Achieved**
	Clinical Study Report (CSR) from the successful Phase III study (gastroenteritis)	Medium	**Q3 2017**	
RHB-103 - RIZAPORT® (Migraine)	U.S. NDA re-submission	Low	**Oct 2017**	**Achieved**
RHB-104 (Crohn's Disease)	Meeting with Data and Safety Monitoring Board Group for the MAP U.S. Phase III study for Crohn's disease including safety and interim efficacy analysis, with evaluation of option of early stop for success for overwhelming efficacy	High	**Mid-2017**	**Achieved**
	Op-line results MAP US Phase III ongoing		**Q3/2018**	
	Initiation of pivotal Phase III study for first line treatment of Nontuberculous Mycobacteria (NTM) infections		**H1/2018**	
TALICIA™ (RHB-105) (*H. pylori*)	Initiation of a confirmatory Phase III study for treatment of *H. pylori* infection	Medium	**Mid-2017**	**Achieved**
	Top-line Phase III results	High		**Q4/2018**
YELIVA®	Initiation of Phase Ib study to evaluate YELIVA® as a radioprotectant for prevention of mucositis in head and neck cancer patients undergoing therapeutic radiotherapy	Medium	**Q3 2017**	
	Initiation of Phase IIa study with YELIVA® for cholangiocarcinoma	Medium	**Q3 2017**	**Achieved**
	Initiation of a Phase II study with YELIVA® for ulcerative colitis	Medium	**Q4 2017**	
MESUPRON	Initiation of Phase I/II study in Germany with MESUPRON for pancreatic cancer	Low	**Q4 2017**	

Source: Frost & Sullivan analysis

Appendix

Appendix - Financial Reports

Profit and Loss Statement

	In thousands $					
	2013	**2014**	**2015**	**2016**	**30.9.2016**	**30.9.2017**
Total Revenues	12	7,014	3	101	1	2,006
Cost of Revenue	0	1,050	0	0	0	1,207
Net Revenue	12	5,964	3	101	0	799
Net Research and development expenses	8,100	12,700	17,771	25,241	17,745	24,677
General and administrative expenses	2,684	4,011	4,134	5,403	2,669	5,513
Selling, Marketing and BD expenses	0	0	0	0	1,137	8,170
Other income	0	100		0	0	-
Other expenses	0	0	100	0	0	45
Operating loss	**10,772**	**10,647**	**22,002**	**30,543**	**21,551**	**37,606**
Financial income	158	319	1,124	1,548	548	2,541
Financial expenses	14	383	212	375	17	66
Other financial income (expenses), net	144	64	912	1,173	531	2,475
Loss and comprehensive loss	**10,628**	**10,711**	**21,090**	**29,370**	**21,020**	**35,131**

Balance Sheet

	In thousands $				
Current assets	**2013**	**2014**	**2015**	**2016**	**30.9.2017**
Cash and cash equivalents	11,851	5,892	21,516	53,786	18,663
Bank deposits	19	17,053	36,622	55	8,127
Financial assets at fair value through profit or loss	243	0	0	12,313	12,645
Prepaid expenses and receivables	488	3,074	2,372	1,661	4,380
Total current assets	12,601	26,019	60,510	67,815	43,815
Non-current assets					
Bank deposits	81	78	134	137	149
Fixed assets	103	146	124	165	250
Intangible assets	1,555	2,615	6,060	6,095	6,085
Total non-current assets	1,739	2,839	6,318	6,397	6,484
Total assets	**14,340**	**28,858**	**66,828**	**74,212**	**50,299**
Current liabilities					
Accounts payable and accrued expenses	2,415	1,720	3,514	3,356	11,031
Payable in respect of intangible asset purchase	0	0	2,000	2,000	1,000
Total current liabilities	2,415	1,720	5,514	5,356	12,031
Non-current liabilities					
Derivative financial instruments	0	2,125	1,237	6,155	4,307
Total non-current liabilities	0	2,125	1,237	6,155	4,307
Total Liabilities	**2,415**	**3,845**	**6,751**	**11,511**	**16,338**
Total Equity	11,925	25,011	60,077	62,701	**33,961**
Total liabilities and equity	**14,340**	**28,856**	**66,828**	**74,212**	**50,299**

Disclaimers, disclosures, and insights for more responsible investment decisions

Definitions: "Frost & Sullivan" – A company registered in California, USA with branches and subsidiaries in other regions, including in Israel, and including any other relevant Frost & Sullivan entities, such as Frost & Sullivan Research & Consulting Ltd. ("FSRC"), a wholly owned subsidiary of Frost & Sullivan that is registered in Israel – as applicable. "The Company" or "Participant" – The company that is analyzed in a report and participates in the TASE' Scheme**;** "Report", "Research Note" or "Analysis" – The content, or any part thereof where applicable, contained in a document such as a Research Note and/or any other previous or later document authored by "Frost & Sullivan", regardless if it has been authored in the frame of the "Analysis Program", if included in the database at www.frost.com and regardless of the Analysis format-online, a digital file or hard copy**;** "Invest", "Investment" or "Investment decision" – Any decision and/or a recommendation to Buy, Hold or Sell any security of The Company.

The purpose of the Report is to enable a more informed investment decision. Yet, nothing in a Report shall constitute a recommendation or solicitation to make any Investment Decision, so Frost & Sullivan takes no responsibility and shall not be deemed responsible for any specific decision, including an Investment Decision, and will not be liable for any actual, consequential, or punitive damages directly or indirectly related to The Report. Without derogating from the generality of the above, you shall consider the following clarifications, disclosure recommendations, and disclaimers. The Report does not include any personal or personalized advice as it cannot consider the particular investment criteria, needs, preferences, priorities, limitations, financial situation, risk aversion, and any other particular circumstances and factors that shall impact an investment decision.

Frost & Sullivan makes no warranty nor representation, expressed or implied, as to the completeness and accuracy of the Report at the time of any investment decision, and no liability shall attach thereto, considering the following among other reasons: The Report may not include the most updated and relevant information from all relevant sources, including later Reports, if any, at the time of the investment decision, so any investment decision shall consider them; The Analysis considers data, information and assessments provided by the company and from sources that were published by third parties (however, even reliable sources contain unknown errors from time to time); The methodology aims to focus on major known products, activities and target markets of the Company that may have a significant impact on its performance as per our discretion, but it may ignore other elements; The Company was not allowed to share any insider information; Any investment decision must be based on a clear understanding of the technologies, products, business environments, and any other drivers and restraints of the company performance, regardless if such information is mentioned in The Report or not; An investment decision shall consider any relevant updated information, such as the company's website and reports on Magna; Information and assessments contained in The Report are obtained from sources believed by us to be reliable (however, any source may contain unknown errors. All expressions of opinions, forecasts or estimates reflect the judgment at the time of writing, based on the Company's latest financial report, and some additional information (they are subject to change without any notice). You shall consider the entire analysis contained in the Reports. No specific part of a Report, including any summary that is provided for convenience only, shall serve per se as a basis for any investment decision. In case you perceive a contradiction between any parts of The Report, you shall avoid any investment decision before such contradiction is resolved.

Risks, valuation, and projections: Any stock price or equity value referred to in The Report may fluctuate. Past performance is not indicative of future performance, future returns are not guaranteed, and a loss of original capital may occur. Nothing contained in The Report is or should be relied on as, a promise or representation as to the future. The projected financial information is prepared expressly for use herein and is based upon the stated assumptions and Frost & Sullivan's analysis of information available at the time that this Report was prepared. There is no representation, warranty, or other assurance that any of the projections will be realized. The Report contains forward-looking statements, such as "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions. Undue reliance should not be placed on the forward-looking statements because there is no assurance that they will prove to be correct. Since forward-looking statements address future events and conditions, they involve inherent risks and uncertainties. Forward-looking information or statements contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results to be materially different from current projections. Macro level factors that are not directly analyzed in the Report, such as interest rates and exchange rates, any events related to the eco-system, clients, suppliers, competitors, regulators, and others may fluctuate at any time. An investment decision must consider the Risks described in the Report and any other relevant Reports, if any, including the latest financial reports of the company. R&D activities shall be considered as high risk, even if such risks are not specifically discussed in the Report. Any investment decision shall consider the impact of negative and even worst case scenarios. Any relevant forward-looking statements as defined in Section 27A of the Securities Act of 1933 and Section 21E the Securities Exchange Act of 1934 (as amended) are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995

TASE Analysis Scheme: The Report is authored by Frost & Sullivan Research & Consulting Ltd. within the framework of the Analysis Scheme of the Tel Aviv Stock Exchange ("TASE") regarding the provision of analysis services on companies that participate in the analysis scheme (see details: www.tase.co.il/LPages/TechAnalysis/Tase_Analysis_Site/index.html, www.tase.co.il/LPages/InvestorRelations/english/tase-analysis-program.html), an agreement that the company has signed with TASE ("The Agreement") and the regulation and supervision of the Israel Security Authority (ISA). FSRC and its lead analyst are licensed by the ISA as investment advisors. Accordingly, the following implications and disclosure requirements shall apply.

The agreement with the Tel-Aviv Stock Exchange Ltd. regarding participation in the scheme for research analysis of public companies does not and shall not constitute an agreement on the part of the Tel-Aviv Stock Exchange Ltd. or the Israel Securities Authority to the content of the Equity Research Notes or to the recommendations contained therein.

As per the Agreement and/or ISA regulations: A summary of the Report shall also be published in Hebrew. In the event of any contradiction, inconsistency, discrepancy, ambiguity or variance between the English Report and the Hebrew summary of said Report, the English version shall prevail. The Report shall include a description of the Participant and its business activities, which shall inter alia relate to matters such as: shareholders; management; products; relevant intellectual property; the business environment in which the Participant operates; the Participant's standing in such an environment including current and forecasted trends; a description of past and current financial positions of the Participant; and a forecast regarding future developments and any other matter which in the professional view of Frost & Sullivan (as defined below) should be addressed in a research Report (of the nature published) and which may affect the decision of a reasonable investor contemplating an investment in the Participant's securities. To the extent it is relevant, the Analysis shall include a schedule of scientific analysis by an expert in the field of life sciences. An equity research abstract shall accompany each Equity Research Report, describing the main points addressed. A thorough analysis and discussion will be included in Reports where the investment case has materially changed. Short update notes, in which the investment case has not materially changed, will include a summary valuation discussion. Subject to the agreement, Frost & Sullivan Research & Consulting Ltd. is entitled to an annual fee to be paid directly by the TASE. The fees shall be in the range of 35 to 50 thousands USD per each participant. Each participant shall pay fees for its participation in the Scheme directly to the TASE.

The named lead analyst and analysts responsible for this Report certify that the views expressed in the Report accurately reflect their personal views about the Company and its securities and that no part of their compensation was, is, or will be directly or indirectly related to the specific recommendation or view contained in the Report. Neither said analysts nor Frost & Sullivan trade or directly own any securities in the company.