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SCYNEXIS, Inc. (NasdaqGM: SCYX) — Updating Coverage

Updating Coverage by Upgrading from Speculative Buy — August 9, 2016
To a Buy Rating and Reiterating 12-Month Price Target of $8.00

Scynexis Reports Successful Phase II Trials and the Franchise Value Strengthens

Scynexis Inc. (SCYX) is now trading below its cash value, which, in our opinion, makes this stock a compelling value. The company has met all its development deadlines, has a clear development path forward and as a consequence of its June 2016 underwritten public offering of $22.5 million, has cash to fund operations through 3Q-2018. We are therefore updating SCYX by upgrading it to a Buy Rating and reiterating our 12-month price target of 8.00.

Current Price	**$2.09**
12 Month Target Price	**$8.00**
12 Month Trading Range	$1.74-$8.71
Market Capitalization (Mil)	$48.97
Shares Outstanding (Mil)	23.43*
Avg. Daily Volume	233,834
L. T. Debt (Mil)	N/A
*Per 10Q/2nd quarter	
Dividend/Yield	N/A
Book Value P/S	$2.52
NASDAQ Composite	5,213.14
S&P 500	2,180.89
Historical Performance - Page 6 Price and Volume Chart - Page 7	

The Centers for Disease Control and Prevention (CDC) has reported that fluconazole-resistant invasive candidiasis and aspergillosis are serious, life-threatening infections. There are an estimated 98,000 cases of invasive candidiasis in the U.S. each year, resulting in 19,000 to 39,000 deaths. Aspergillosis is the second most common invasive hospital-acquired infection with 50% mortality despite treatment.

The widespread use of azoles (echinocandins and polyenes) to treat these infections has led to increased numbers of drug-resistant strains. Results from two recent successful Phase II studies of SCY-078 indicate a drug with an exceptional safety profile and promising effectiveness. In June 2016, the company reported positive top-line results from its Phase II proof-of-concept study of SCY-078 in vulvovaginal candidiasis. On August 1, 2016 SCYX announced positive results in an interim analysis of a Phase II study of SCY-078 for treatment of invasive *Candida* infections.

The three objectives of the Phase II study in invasive *Candida* infections were: to identify the optimal oral dose of SCY-078 (primary); to demonstrate safety and tolerability in intensive care patients (primary); and to gather preliminary efficacy indications of SCY-078 for treatment of invasive *Candida* infections (secondary).

SCY-078 was safe and well tolerated. The most commonly reported adverse events in the study were gastrointestinal, such as diarrhea, abdominal pain, nausea and vomiting. All GI events were mild or moderate and none resulted in discontinuation. Efficacy was a secondary endpoint in the study. Favorable global response rates were similar among all treatment groups. Of the seven patients randomized to the SCY-078 750mg treatment group, six (86%) achieved a favorable global response of reducing signs and symptoms, compared to five out of

seven (71%) in the fluconazole control group, and five out of seven (71%) in the SCY-078 500mg group.

Valuation

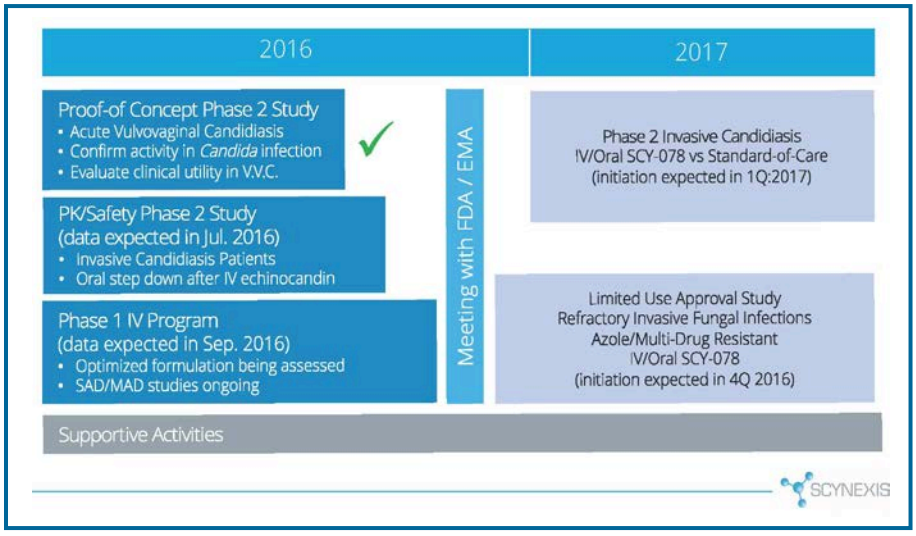
Rating Legend:

Strong Buy – Should be aggressively purchased.
Buy - Should be purchased on market weakness.
Hold - Fairly valued.
Sell - Stock should be sold on market strength.
Sell Short - Should be aggressively sold.
Speculative Buy – For aggressive accounts only.

As with our initiation we cannot underscore the need for a new class of anti-fungal drugs to treat the increasing number of immune-compromised people from prolonged use of Anti TNFα drugs, anti-rejection drugs among transplant patients, or lowered resistance due to HIV and chemotherapy. This is not unlike ten years ago when we began to advocate for investments in novel antibiotics companies in the face of similar resistance concerns. Concurrently, what we can underscore is that the SCYX franchise is now trading below its cash value. This metric gives us confidence in highlighting the investment value thesis below.

Again, as with our initiation using a sum-of-the-parts calculation we arrive at the $8 value by assigning a discounted value of $2 per share in cash, $3 per share to the SCY-078 oral programs, $2 per share of value to the SCY-078 IV program, and $1 per share to the balance of SCYX's assets. Using a 23.28 MM share count, we arrive at our 12-month valuation of $8.00 and raise SCYX from a Speculative Buy to a Buy recommendation.

SCY078 Development Path



Source: Scynexis

About the Phase II *Candida* Study

In this Phase II multicenter, multinational, randomized, open-label study (clinicaltrials.gov identifier: NCT02244606) of oral SCY-078 vs. standard-of-care following three to ten days of IV

echinocandin therapy. A total of 27 patients with invasive candidiasis were enrolled and 22 were randomized to receive either SCY-078 500mg once per day with a 1,000mg loading dose (7 patients), SCY-078 750mg once per day with a 1,250mg loading dose (7 patients) or standard of care (7 patients receiving fluconazole 400mg once per day with a 800mg loading dose and 1 patient receiving micafungin IV 100mg once per day because of a fluconazole-resistant isolate) for up to 28 days. Data in the interim analysis includes assessments conducted in the 22 randomized patients (ITT population) up to the end of treatment visit.

About SCY-078

SCY-078 is the lead Scynexis product. It is a first-in-class IV and oral anti-fungal for treatment of invasive fungal infections caused by *Candida* or *Aspergillus* species. SCY-078 is a semi-synthetic derivative of the natural product enfumafungin - a structurally distinct class of glucan synthase inhibitors. Glucan synthase inhibitors have been effective in treating invasive fungal infections in a hospital setting but are currently only available in IV formulations. The FDA designated SCY-078 as a Fast Track product and Qualified Infectious Disease Product (QIDP) for oral use in invasive candidiasis, including candidemia, and invasive aspergillosis. SCY-078 promises to combine the best of other anti-fungal classes. It has shown efficacy with little toxicity and can be delivered both orally and potentially through IV.

SCY-078 is intended as an oral step-down treatment in patients initially treated with intravenous echinocandin therapy. A once-daily oral dose of 750mg of SCY-078 was shown to achieve the target exposure at steady state in more than 80% of the patients. There are currently three approved classes of anti-fungal drugs available to treat these deadly infections.

The oldest anti-fungal class comprises of polyenes. They were developed more than 50 years ago and today constitute close to $500 million in annual revenue, but they are available only as IV formulations, can be toxic - causing renal, cardiac and infusion problems - and they have limited efficacy against *C. glabrata*, a *Candida* infection that has become a threat to HIV patients.

Echinocandins were introduced about 15 years ago. They have been effective and well tolerated, but are available only in IV formulations and some *Candida* strains are becoming resistant to them. Caspofungin, a member of the echinocandin class garners close to $620 million in annual revenue.

Azoles account for 95% of the prescriptions and 60% of the revenue (more than $1.8 billion per year) among the anti-fungals. They are available in both IV and oral formulations and have been effective. However, there is a rising resistance to these drugs as well as danger of liver toxicity and drug-drug interactions.

Risks

In addition to the risks normally anticipated in a development-stage biotechnology company, SCYX management reports the following that are specific to this company on its 10K for FY 2015. The company states on the 10Q for 2Q-2016, "There have been no material changes to our risk factors since our Annual Report on Form 10-K for the year ended December 31, 2015."

We have a significant concentration of credit risk in the form of cash on deposit with two banks, which exceeds the individual account FDIC insurance limits.

We had cash and cash equivalents of $47.0 million on deposit with two banking institutions as of December 31, 2015. We monitor the credit rating of our commercial banks based on the quarterly reviews of independent analysts. If the commercial banks experience insolvency and we are unable to access our cash and cash equivalents, or if we experience a loss of principal, it may adversely affect our ability to develop and commercialize SCY-078 and any future product candidates we may seek to develop.

Historically we have been primarily a contract research and development services company devoting a majority of our resources and efforts to providing research and development services to other companies, and we only recently shifted our primary focus to developing our own drug candidate, SCY-078.

We were spun out from Aventis in 2000 as a chemistry and animal health services company, providing contract research services to third parties. Since then, until our disposition of this business in July 2015, we have derived substantially all of our revenue from providing these services to human and animal health companies to assist them in developing their own drug candidates. In the course of providing these services, we leveraged this expertise to develop our own proprietary compounds, including a platform of cyclophilin inhibitors, among them SCY-635, which we exclusively licensed to Waterstone in October 2014 in the field of human health.

Although we have conducted Phase 1 and Phase 2 studies of SCY-635, our cyclophilin inhibitor that we exclusively licensed to Waterstone in October 2014 in the field of human health, we only acquired the rights to develop SCY-078, our lead drug candidate for the treatment of invasive fungal infections, in May 2013. We do not have a significant history of developing our own drug candidates, and we have not brought any drug candidates to market, which makes it difficult to assess our ability to develop and commercialize SCY-078 and any future product candidates we may seek to develop or commercialize.

A significant use of antifungal drugs consists of treatment due to the presence of symptoms before diagnosis of the invasive fungal infections, and if recently approved diagnostic tools, or additional tools currently under development, for the quick diagnosis of invasive fungal infections are broadly used in the marketplace, the number of treatments using antifungal drugs may decrease significantly, decreasing the potential market for SCY-078.

We believe that a large portion of the treatments using antifungal drugs are administered when symptoms of invasive fungal infections are present but a diagnosis of the infection has not yet been made, due to the rapid and potentially fatal progression of invasive fungal infections. Diagnostic tools recently approved by the FDA, or currently under development, for the rapid diagnosis of invasive fungal infections may significantly diminish the need to treat patients in advance of diagnosis of invasive fungal infections, which will reduce the potential market for SCY-078 in the event that we are able to obtain FDA approval of SCY-078. Moreover, if a rapid and accurate test of the susceptibility of a fungal infection to generically available treatments is developed and widely adopted, the market for SCY-078 may suffer.

If resistance to SCY-078 develops quickly or cross-resistance with echinocandins becomes more common, our business will be harmed.

We recognize that, over time, resistance develops against every antibacterial and antifungal drug. One or more strains of fungal pathogens may develop resistance to SCY-078 more rapidly than we currently expect, either because our hypothesis of the mechanism of action is incorrect or because a strain of fungi undergoes some unforeseen genetic mutation that permits it to survive. Since we expect lower resistance relative to other antifungal drug classes to be a major factor in the commercialization of SCY-078, rapid development of such resistance or development of cross resistance with echinocandins would have a major adverse impact on the acceptability and sales of SCY-078.

As a result of the divestiture of our former contract research and development business, we now contract with a third-party provider for certain drug development activities related to SCY-078, and if these services are terminated or are not as effective as when we could provide them internally, our development of SCY-078 may be delayed or harmed.

In connection with the sale of our former contract research and development business ("Services Business") to Accuratus, we entered into the Services Agreement ("Services Agreement") with Accuratus pursuant to which Accuratus will provide us with certain contract research and development services for 18 months following the closing of the sale of the Services Business. The purpose of the Services Agreement is to replace drug development services for the advancement of SCY-078 that were previously provided internally by our employees prior to the sale of the Services Business. These former employees have extensive knowledge and expertise pertaining to our SCY-078 drug development activities, and we are substantially dependent upon the continued access to their expertise pursuant to the terms of the Services Agreement. If we lose our ability to access this expertise, we could experience a significant delay in both identifying another comparable provider and then contracting for its services, which could adversely affect our development efforts. We may be unable to retain an alternative provider on reasonable terms, or at all. Even if we locate an alternative provider, it is likely that any provider will need additional time to respond to our needs and may not provide the same or similar type or level of services, which could have an adverse affect on the cost and timing of our development activities related to SCY-078.

We are dependent on our existing third-party collaboration with R-Pharm to commercialize SCY-078 in the Russian Federation and certain other countries, and if R-Pharm is not successful in commercializing SCY-078 in those countries, we will lose a significant source of potential revenue.

We currently have a development license and supply agreement with R-Pharm, CJSC, or R-Pharm, a leading supplier of hospital drugs in Russia, pursuant to which we license to R-Pharm rights to develop and commercialize SCY-078 in the field of human health in Russia and certain smaller non-core markets. R-Pharm will pay us milestone payments upon the achievement of specified milestones, including registration of SCY-078 in a country and upon the achievement of specified levels of sales. In addition, R-Pharm will pay us royalties upon sales of SCY-078 by R-Pharm. We are relying on R-Pharm to commercialize SCY-078 in the countries covered by our agreement with it, and if R-Pharm is not able to commercialize SCY-078 in those countries, or determines not to pursue commercialization of SCY-078 in those countries, we will not receive any milestone or royalty payments under the agreement.

Management

Marco Taglietti, M.D. Chief Executive Officer since April 1, 2015 and a member of the board since December 2014. He became SCYNEXIS president in September 2015. Prior to Scynexis, Mr. Taglietti held executive positions at Forest Laboratories, Inc. and the Forest Research Institute until it was purchased by Actavis. Dr. Taglietti also was Senior Vice President, Head of Global Research and Development at Stiefel Laboratories, Inc. He also worked at Schering-Plough Corporation for 12 years and Marion Merrell Dow Research Institute. Dr. Taglietti attended University of Pavia, where he received his board certifications and medical degree.

David Angulo, M.D. Chief Medical Officer since June 1, 2015. Before joining Scynexis, Dr. Angulo was the Vice President, Research and Development at Brickell Biotech, Inc. and held executive positions at Stiefel Laboratories in the clinical and medical departments. He also led anti-infective development programs at Schering-Plough Research Institute. He received his post-graduate degrees in infectious diseases and pediatrics, along with his medical degree, from the Universidad de Guadalajara, Mexico.

Eric Francois, Chief Financial Officer since November 2, 2015. Previously, he worked at Topi, Inc., a technology startup, as the Chief Operating Officer. Mr. Francois spent six years at Lazard Ltd. as a Director in the Equity Capital Markets Group. He also worked at Cowen and Company in the Equity Capital Markets and Convertible Debt Groups. He received his Bachelor's degree in Economics and Business Administration with a Master's Degree in Marketing from Pantheon-Sorbonne University.

Historical & Future EPS Performance

EPS	2015	2016	2017
Q1	(0.75)A	(0.52)A	
Q2	(0.78)A	(0.56)A	
Q3	(0.60)A		
Q4	(0.55)A		
Year	(2.68)A	(2.50)E	(2.50)E
P/E	NM	NM	NM
EPS Growth	NM	NM	NM
FY Rev. (Mil)	0.257A	1.00E	5.00E
FY:DEC			

Price and Volume

Coverage Initiated 12-28-15

12 Months

1	Initiated Coverage of SCYX on 12/28/15 at $5.82 with a Speculative Buy Rating and a 12-month price target of $8.00

Distribution of Ratings and Disclosure of Banking Relationships: The following table shows WBB's ratings distribution expressed as a percentage of all securities rated as of the end of the category for whom WBB has provided investment banking services within the previous 12 months. WBB has also provided advisory services within the previous 12 months to SCYX.

	Percentage of Covered Securities	Percentage of Banking Clients
Buy	64%	22%
Hold	19%	0%
Sell	17%	0%

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