

RESEARCH NOTE

New Price Target

APRICUS BIOSCIENCES INC

Engages in designing and developing pharmaceutical products based on its patented NexACT drug delivery technology. Its most advanced product, Vitaros, is a topical alprostadil-based cream treatment for patients with erectile dysfunction. It was recently approved in Canada. Apricus Bio also has a full pipeline that includes a topical nail solution for the treatment of nail fungal infections; Femprox, an alprostadil-based cream product for the treatment of female sexual arousal disorder; and developing treatments for psoriasis, cancer inflammation, pain, and wound healing. Its subsidiary, Bio-Quant, Inc., serves as a specialty biotech contract research organization (CRO) in the areas of non-good laboratory practices and sells diagnostic kits. The company was founded in 1987 and is headquartered in San Diego, California.

Since our initial report was written, we have become more impressed with Apricus management's drive to achieve its objectives and are revising our price target to reflect this focus.

We continue to maintain that increasing revenues should be a meaningful indication that Apricus Bio is capable of transitioning into a profitable company. We now are more focused on the determination of the company's management to achieve corporate goals and believe this warrants a greater multiple than we previously applied. Our increased positive stance for Apricus Bio in part rests on our greater confidence that a strong Vitaros Canadian commercialization partner will be signed, which we believe should also facilitate Apricus Bio's management in signing additional Vitaros partnerships throughout other parts of the world. We now apply an 8X multiple to our 2012 revenue estimates and continue to apply a 20% discount due to its new corporate structure. Our new price is \$8.

We maintain our rating of Buy on Apricus Bio.

Analyst: Cathy Reese
Michelle Boone

MEANING OF RATINGS

Buy

We believe the company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the company is significantly overvalued based on its current status. The future of the company's operations may be questionable and there is an extreme level of investment risk relative to reward.

Some notable Risks within the Microcap Market

Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations.

Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.

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