

Photocure

Financial update

Solid growth in the US

Photocure has announced results for Q118 with 14% revenue growth compared to Q117. Revenue growth was particularly strong in the US market where Hexvix/Cysview sales increased 27% (up 36% on a constant-currency basis). Importantly, the company also announced that it has initiated the commercial launch of Hexvix/Cysview in the surveillance setting, which greatly expands the addressable market. There are an estimated 1.2–1.4m surveillance-related procedures per year, compared to 325,000 transurethral resection of bladder tumour (TURBT) procedures, where the company has historically been focused.

Year end	Revenue (NOKm)	PBT* (NOKm)	EPS* (NOK)	DPS (NOK)	P/E (x)	Yield (%)
12/16	143.6	12.8	1.64	0.0	17.0	N/A
12/17	150.9	(41.6)	(1.61)	0.0	N/A	N/A
12/18e	200.9	(18.3)	(0.43)	0.0	N/A	N/A
12/19e	288.8	56.0	1.86	0.0	14.9	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Hexvix/Cysview launch in the surveillance setting

In mid-February, the FDA approved an expanded indication for Cysview, which includes the surveillance setting. Hexvix/Cysview sales may have significant upside if the product successfully expands into the US bladder cancer surveillance market, which has an estimated 1.2–1.4m procedures per year, compared to its current market of 325,000 TURBT procedures. The commercial launch officially began in mid-May so there should be a small impact on Q2 revenues and a greater impact in the second half of the year.

US continues to be the growth engine

Q118 sales in the US increased 27% (up 36% on a constant-currency basis) to NOK12.7m, driven mainly by volume growth (which was helped by improved reimbursement) and price increases. Unit sales increased 29% and nine additional units were installed over the quarter (largest quarterly increase since the launch), bringing the total installed base to 113.

Partner revenue remains an issue

Partner revenue fell 5% to NOK15.8m and was down 12% on a constant-currency basis. France was a major driver due to a loss of reimbursement in Q217 and was responsible for about half of the decline. Germany also saw slowing sales.

Valuation: NOK880m or NOK41 per share

We have adjusted our valuation to NOK880m or NOK41 per basic share from NOK898m or NOK42 per basic share mainly due to a lower cash balance. We are maintaining our revenue estimates for 2018 and 2019 and expect to update them as we have more information on the progress of the surveillance market launch. With NOK111m in cash, Photocure should have enough capital to meet its needs.

Pharma & biotech

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Price **NOK27.80**
Market cap **NOK600m**

NOK8.11/US\$

Net cash (NOKm) at 31 March 2018 111

Shares in issue 21.6m

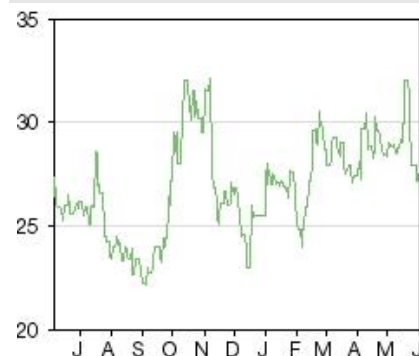
Free float 76.9%

Code PHO

Primary exchange Oslo

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(1.8)	(1.9)	4.1
Rel (local)	(2.4)	(7.7)	(13.7)

52-week high/low NOK32.1 NOK22.1

Business description

Photocure specialises in photodynamic therapy. Its bladder cancer imaging product is sold as Hexvix in Europe and Cysview in the US. It handles the marketing in Nordic countries and the US, while Ipsen is its marketing partner in the EU. Cevira is a Phase III-ready product for HPV-related diseases of the cervix and Visonac is a Phase III-ready product for acne.

Next events

Update on surveillance market launch 2018

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Q118 results

Photocure reported revenue of NOK41.6m for Q118, representing 14% growth over Q117 and 3% growth sequentially. Hexvix/Cysview revenues were up 11%. Sales in the US continued to be strong, up 27% compared to Q117. Although there was a negative currency impact, on a constant-currency basis, sales were up 36% compared to last year. Sequentially, sales in the US were up 25% for the quarter. End-user unit sales were also strong, growing 29% for the quarter compared to last year, driven by a record quarterly increase in the number of permanent blue light cystoscopes installed (currently 113, up from 104 at the beginning of the year).

Revenues in the Nordic region increased 24% to NOK12.1m, although this was driven by increased inventory at distributors, exchange rates and price increases rather than organic growth. On a constant-currency basis, revenue increased 19% in the quarter. Also, on a sequential basis, revenues fell 6%. End-user unit sales in the region were down 10% compared to Q117 mainly due to Denmark and large deliveries to hospitals at the end of 2017. Results in partnered areas decreased 5% in the quarter to NOK15.8m and were down 3% on a sequential-quarter basis. Approximately half of the decline from last year was due to weak sales in France because of a loss of reimbursement in Q217. In addition, growth in the relatively new markets of Australia and Canada was hampered by the delayed placement of scopes and reimbursement issues. It is important to note that Q118 revenue was positively affected by an NOK1.7m accounting adjustment related to IFRS 15 as well as a positive foreign exchange impact (on a constant-currency basis, revenue was down 12% compared to Q117). End-user unit sales decreased 5% for the quarter so despite a lot of moving parts such as foreign exchange and accounting changes, the decline in sales matches the decline in units.

SG&A for Q1 was slightly lower than the last quarter, at NOK39.8m (compared to NOK41.4m in Q4) although is still up 19% compared to the same quarter last year. SG&A will likely increase over FY18 due in large part to an increase in the number of salespeople in the US and the surveillance market launch. R&D expenses were down considerably to NOK2.5m from NOK5.6m in Q417 as the regulatory work surrounding FDA approval for the surveillance market is behind them.

Valuation

We have adjusted our valuation to NOK880m or NOK41 per basic share from NOK898m or NOK42 per basic share mainly due to a lower cash balance. We may update the valuation once the company provides an update on the sales trajectory in the recently launched surveillance setting as well as changes to spending associated with increased marketing.

Exhibit 1: Valuation of Photocure

Product	Main indication	Status	Probability of commercialisation	Launch year	Peak sales (NOKm)	Patent protection	Economics	rNPV (NOKm)
Hexvix/Cysview	Bladder cancer detection	Market	100%	Launched	344	2019-20	Fully owned - US and Nordics, Partner with Ipsen in EU (35% royalty)	542
Cevira	HPV-related diseases	Phase III	20%	2021	2,218	2030	17.5%	121
Visonac	Acne	Phase III	20%	2021	2,091	2028	17.5%	106
Total								769
Cash and cash equivalents (Q417)								111
Total firm value								880
Total basic shares (m)								21.6
Value per basic share (NOK)								41
Options (Q118, m)								0.0
Total number of shares (m)								21.6
Diluted value per share (NOK)								41

Source: Edison Investment Research

Financials

We have maintained our 2018 revenue estimates although we will update them once we receive additional information on the surveillance market launch. We have lowered our R&D estimates by NOK13.7m for 2018 and NOK14.3m for 2019 as the company reported much lower R&D expenses than expected. Much of the spending in this category appears to be behind it following the surveillance market approval. We have also reduced our SG&A estimates for 2018 by NOK1.8m and for 2019 by NOK1.9m due to slightly lower SG&A expenses in Q118 compared to Q417. We continue to expect SG&A to grow in 2018 due to the company's increased investment in the US market. The company ended Q118 with NOK111m in cash, and we do not expect it to require further financing as we continue to expect profitability in 2019.

Exhibit 2: Financial summary

	NOK000s	2016	2017	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		143,627	150,911	200,873	288,758
Cost of Sales		(9,337)	(12,011)	(14,513)	(20,266)
Gross Profit		134,291	138,900	186,360	268,493
Sales, General and Administrative Expenses		(124,647)	(149,098)	(184,537)	(191,919)
Research and Development Expense		(17,652)	(22,896)	(10,078)	(10,481)
EBITDA		(8,008)	(33,094)	(8,255)	66,093
Operating profit (before amort. and except)		(15,861)	(45,202)	(18,668)	55,680
Intangible Amortisation		0	0	0	0
Other		0	0	0	0
Exceptionals		0	0	0	0
Operating Profit		(15,861)	(45,202)	(18,668)	55,680
Net Interest		28,640	3,622	328	341
Other		0	0	0	0
Profit Before Tax (norm)		12,779	(41,580)	(18,340)	56,021
Profit Before Tax (FRS 3)		12,779	(41,580)	(18,340)	56,021
Tax		22,530	6,883	9,002	(15,126)
Deferred tax		(0)	(0)	(0)	(0)
Profit After Tax (norm)		35,309	(34,697)	(9,338)	40,895
Profit After Tax (FRS 3)		35,309	(34,697)	(9,338)	40,895
Average Number of Shares Outstanding (m)		21.5	21.6	21.8	22.0
EPS - normalised (ore)		164	(161)	(43)	186
EPS - FRS 3 (ore)		164	(161)	(43)	186
Dividend per share (ore)		0.0	0.0	0.0	0.0
BALANCE SHEET					
Fixed Assets		74,070	87,486	84,393	74,632
Intangible Assets		26,390	33,315	24,062	14,038
Tangible Assets		1,660	1,268	1,476	1,739
Other		46,020	52,903	58,855	58,855
Current Assets		212,268	175,613	160,548	211,872
Stocks		17,955	19,552	21,229	33,335
Debtors		12,323	14,573	20,527	28,876
Cash		169,239	129,368	105,616	136,485
Other		12,750	12,119	13,176	13,176
Current Liabilities		(30,637)	(40,267)	(41,407)	(41,407)
Creditors		(30,637)	(40,267)	(41,407)	(41,407)
Short term borrowings		0	0	0	0
Long Term Liabilities		(3,758)	(4,752)	(4,989)	(5,488)
Long term borrowings		0	0	0	0
Other long term liabilities		(3,758)	(4,752)	(4,989)	(5,488)
Net Assets		251,943	218,079	198,545	239,609
CASH FLOW					
Operating Cash Flow		19,193	(23,593)	(23,064)	31,521
Net Interest		0	0	0	0
Tax		0	0	0	0
Capex		(21,715)	(18,588)	(2,028)	(2,046)
Acquisitions/disposals		33,213	0	0	0
Financing		0	0	0	0
Dividends		0	0	0	0
Other		2,394	2,310	1,340	1,394
Net Cash Flow		33,085	(39,871)	(23,752)	30,869
Opening net debt/(cash)		(134,026)	(169,239)	(129,368)	(105,616)
HP finance leases initiated		0	0	0	0
Exchange rate movements		0	0	0	0
Other		2129	0	0	0
Closing net debt/(cash)		(169,239)	(129,368)	(105,616)	(136,485)

Source: Company accounts, Edison Investment Research

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