

Photocure

Financial update

US growth accelerating

Photocure announced results for Q218 with 16% revenue growth compared to Q217. Revenue growth accelerated in the US, where Hexvix/Cysview sales increased 47% (up 56% on a constant currency basis) over Q217 compared to 27% (up 36% on a constant-currency basis) growth last quarter. This was driven mainly by improved reimbursement and a higher installed base of blue light cystoscopes (BLCs).

Year end	Revenue (NOKm)	PBT* (NOKm)	EPS* (NOK)	DPS (NOK)	P/E (x)	Yield (%)
12/16	143.6	12.8	1.64	0.0	26.2	N/A
12/17	150.9	(41.6)	(1.61)	0.0	N/A	N/A
12/18e	201.5	(14.7)	(0.40)	0.0	N/A	N/A
12/19e	288.8	61.0	2.04	0.0	21.1	N/A

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

US driving growth

Q218 sales in the US increased 47% (up 56% on a constant currency basis) to NOK16.1m, driven mainly by volume growth (which was helped by improved reimbursement) and price increases. Unit sales increased 49% and 17 additional units (15 rigid and two flexible) were installed over the quarter (the largest quarterly increase since the initial launch; the previous record had been nine, which was recorded last quarter), bringing the total installed base to 130, up from 104 at the beginning of 2018.

Mid-May 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 original market of 325,000 TURBT procedures. The commercial launch officially began in mid-May, so the impact should be magnified over the remainder of the year.

Nordic revenue decline due to inventory

Nordic revenue fell 8% to NOK10.8m, although in-market unit sales increased 1%. The decline was due to distributors reducing their inventory following the previously announced inventory increase in Q118.

Valuation: NOK954m or NOK44 per share

We have increased our valuation from NOK880m or NOK41 per basic share to NOK954m or NOK44 per basic share, mainly due to rolling forward our NPV and increasing some of our longer-term Hexvix/Cysview forecasts (although peak sales are the same), which was mitigated by a lower cash balance. We have increased our 2018 revenue estimate slightly and are maintaining our estimates for 2019. We expect to update them as we have more information on the progress of the surveillance market launch. With NOK98m in cash, Photocure should have enough capital to meet its needs, especially after recent cost control measures.

Pharma & biotech

16 August 2018

Price **NOK43.00**
Market cap **NOK929m**

NOK8.2/US\$

Net cash (NOKm) at 30 June 2018 98

Shares in issue 21.6m

Free float 74.4%

Code PHO

Primary exchange Oslo

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	39.6	48.3	79.2
Rel (local)	38.2	48.3	50.7

52-week high/low NOK44.8 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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Q218 results

Photocure reported revenue of NOK45.7m for Q218, representing 16% growth over Q217 and 10% growth sequentially. Hexvix/Cysview revenues were up 13%. Sales in the US continued to be strong, up 47% compared to Q217. Although there was a negative currency impact, on a constant currency basis, sales were up 56% compared to last year. Sequentially, sales in the US were up 27% for the quarter and had been up 25% sequentially in the previous quarter. End-user unit sales were also strong, growing 49% for the quarter compared to last year, driven by a record quarterly increase in the number of permanent blue light cystoscopes installed (currently 130, up from 104 at the beginning of the year).

Revenues in the Nordic region decreased 8% to NOK10.8m after increasing 24% in Q118. The decline was due to inventory at distributors being reduced after an inventory increase in the first quarter. End-user unit sales in the region were up 1% compared to Q217. For the first half of the year, Nordic revenues are up 7% compared to H117, although end-user unit sales are down 4% due to large hospital deliveries in Denmark at the end of 2017.

Results in partnered areas increased 4% in the quarter to NOK15.6m and were down 1% on a sequential quarter basis. Reported revenues were negatively affected by a NOK1.2m accounting adjustment related to IFRS 15. End-user unit sales decreased 3% due to weakness in the French and German markets.

SG&A for Q2 was lower sequentially at NOK37.8m (compared to NOK39.8m last quarter and NOK41.4m in Q4), although is still up 3% compared to the same quarter last year. SG&A was affected by Photocure streamlining the organization outside of the commercial franchise. This resulted in a separate restructuring charge of NOK13.1m, NOK7.0m of which is related to the departure of its CEO, who has been replaced on an interim basis by the CFO Erik Dahl. R&D expenses remained under control at NOK2.4m as the regulatory work surrounding FDA approval for the surveillance market has now been completed.

Valuation

We have increased our valuation from NOK880m or NOK41 per basic share to NOK954m or NOK44 per basic share, mainly due to rolling forward our NPV and increasing some of our longer-term Hexvix/Cysview forecasts (although peak sales are the same). This increase was mitigated by 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 and any developments with regard to the strategic alternative reviews for Visonac and Cevira (if there are no developments in the next quarter or two we may lower our probabilities of success for these programmes).

Exhibit 1: Photocure valuation

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)	615
Cevira	HPV-related diseases	Phase III	20%	2021	2,218	2030	17.5%	129
Visonac	Acne	Phase III	20%	2021	2,091	2028	17.5%	113
Total								856
Cash and cash equivalents (Q218)								98
Total firm value								954
Total basic shares (m)								21.6
Value per basic share (NOK)								44
Options (Q218, m)								0.0
Total number of shares (m)								21.6
Diluted value per share (NOK)								44

Source: Edison Investment Research

Financials

We have increased our 2018 revenue estimate slightly as Q2 revenues came in higher than expected, although we are maintaining our estimate for 2019 pending additional updates on the launch. We have lowered our R&D estimates by NOK0.3m for 2018 and 2019 as the company reported slightly lower R&D expenses than expected. Much of the spending in this category appears to be complete following the surveillance market approval. We have also reduced our SG&A estimates for 2018 by NOK7.2m and for 2019 by NOK7.5m due to much lower than expected SG&A expenses following the streamlining of the non-commercial organization. However, we continue to expect SG&A to grow in 2018 due to the company's increased investment in the US market. The company ended Q218 with NOK98m in cash, and we do not expect it to require further financing as we continue to expect profitability in 2019.

Exhibit 2: Financial summary

	NOK'000s	2016	2017	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		143,627	150,911	201,459	288,758
Cost of Sales		(9,337)	(12,011)	(16,133)	(20,266)
Gross Profit		134,291	138,900	185,326	268,493
Sales, General and Administrative Expenses		(124,647)	(149,098)	(177,374)	(184,469)
Research and Development Expense		(17,652)	(22,896)	(9,795)	(10,187)
EBITDA		(8,008)	(33,094)	(1,844)	73,836
Operating Profit (before amort. and except.)		(15,861)	(45,202)	(14,846)	60,834
Intangible Amortisation		0	0	0	0
Other		0	0	0	0
Exceptionals		0	0	(13,133)	0
Operating Profit		(15,861)	(45,202)	(27,979)	60,834
Net Interest		28,640	3,622	140	145
Other		0	0	0	0
Profit Before Tax (norm)		12,779	(41,580)	(14,707)	60,979
Profit Before Tax (FRS 3)		12,779	(41,580)	(27,840)	60,979
Tax		22,530	6,883	6,011	(16,464)
Deferred tax		(0)	(0)	(0)	(0)
Profit After Tax (norm)		35,309	(34,697)	(8,696)	44,515
Profit After Tax (FRS 3)		35,309	(34,697)	(21,829)	44,515
Average Number of Shares Outstanding (m)		21.5	21.6	21.6	21.8
EPS - normalised (ore)		164	(161)	(40)	204
EPS - FRS 3 (ore)		164	(161)	(101)	204
Dividend per share (ore)		0.0	0.0	0.0	0.0
BALANCE SHEET					
Fixed Assets		74,070	87,486	83,557	73,113
Intangible Assets		26,390	33,315	21,440	8,004
Tangible Assets		1,660	1,268	3,880	6,873
Other		46,020	52,903	58,236	58,236
Current Assets		212,268	175,613	150,578	206,087
Stocks		17,955	19,552	23,723	33,335
Debtors		12,323	14,573	20,808	28,876
Cash		169,239	129,368	92,268	130,097
Other		12,750	12,119	13,779	13,779
Current Liabilities		(30,637)	(40,267)	(41,330)	(41,330)
Creditors		(30,637)	(40,267)	(41,330)	(41,330)
Short term borrowings		0	0	0	0
Long Term Liabilities		(3,758)	(4,752)	(4,998)	(5,498)
Long term borrowings		0	0	0	0
Other long term liabilities		(3,758)	(4,752)	(4,998)	(5,498)
Net Assets		251,943	218,079	187,806	232,372
CASH FLOW					
Operating Cash Flow		19,193	(23,593)	(34,054)	40,388
Net Interest		0	0	0	0
Tax		0	0	0	0
Capex		(21,715)	(18,588)	(4,017)	(4,142)
Acquisitions/disposals		33,213	0	0	0
Financing		0	0	0	0
Dividends		0	0	0	0
Other		2,394	2,310	971	1,583
Net Cash Flow		33,085	(39,871)	(37,100)	37,829
Opening net debt/(cash)		(134,026)	(169,239)	(129,368)	(92,268)
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)	(92,268)	(130,097)

Source: Company accounts, Edison Investment Research

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