

Orexo

Q119 results

A robust Q1 despite a seasonally weak market

Orexo's Q119 results reinforced its continuing profitability with total revenues rising 25% y-o-y to SEK174.3m. Zubsolv led the revenue charge comprising 93% of total revenues and growing 23% y-o-y despite the seasonally weak first quarter of the opioid use dependency market. The effect on US Zubsolv (which increased in price by 4% from January 2019) from four Suboxone film generic entrants is so far minor.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/17	643.7	29.7	0.67	0.0	100.7	N/A
12/18	783.1	92.2	3.99	0.0	16.9	N/A
12/19e	877.9	224.9	6.55	0.0	10.3	N/A
12/20e	854.1	195.1	5.47	0.0	12.3	N/A

Note: *PBT and EPS are as reported.

No real surprises in Q119

Growth of 23.3% in US Q119 Zubsolv revenues to SEK161.7m (SEK131.1m in Q118) continues to dominate Orexo's investment case with a growing product despite an increasingly genericised market. Cost control continues to be a focus, with Orexo's gross margin rising to 85% from 65% in Q118. This helped Q119 profit after tax rise to SEK14.1m compared to SEK25.9m in Q118, when traditionally Q1 is a loss-making quarter. This Q1 result was despite R&D investment in the pipeline and SEK49m in IP litigation costs. Orexo's cash balance increased to SEK647.4m (SEK437.5m at the end of Q118). With litigation costs now expected to have a minor role for the rest of this year, the use of Orexo's growing cash balance in M&A and in-licensing transactions will play an important role in diversifying the company's future. The impact of the four generic Suboxone entrants on Zubsolv has been thankfully minor, but the changing market share dynamics will need to be closely watched. Ex-US Zubsolv partnerships in 2019 should be expected.

Litigation costs to decline in an appeal process

The earlier decision taken by the US District Court regarding patent '996 is unchanged. The court's recent decision held that Actavis does not infringe patent '996 for its generic versions of Subutex and Suboxone, and we did not include any award for damages in our model. We have increased our FY19 total operational cost estimate mainly driven by a one-off SG&A expense to SEK538m, which remains close to Orexo's c SEK500m guidance. Irrespective of declining IP legal costs for the remainder of FY19, Orexo's '330 and '996 patents remain in force, ensuring US Zubsolv exclusivity until 2032.

Valuation: A number of moving parts

Our valuation takes into account a number of changes in the quarter and moves from SEK3.42bn or SEK97.7 per share to SEK3.52bn or SEK98.62 per share. Foreign exchange rates carried forward largely cancelled out the increased FY19e administrative expenses, while the reduction in FY19e CoGS from SEK115m to SEK112m and our introduction of a flat total market between Q4 and Q1 for future years resulted in the c 1% increase in our valuation.

Pharma & biotech

8 May 2019

Price **SEK67.5**

Market cap **SEK2336m**

SEK9.50/\$; SEK10.65/€

Net cash (SEKm) at end Q119 326.4

Shares in issue 34.6m

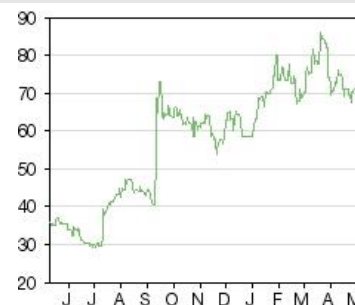
Free float 53.8%

Code ORX

Primary exchange NASDAQ QMX Stockholm

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (6.9) (8.2) 89.6

Rel (local) (6.3) (13.4) 83.9

52-week high/low SEK85.70 SEK29.10

Business description

Orexo is a Swedish speciality pharma company, with expertise in drug delivery/reformulation technologies (in particular, sublingual formulations) and a US commercial infrastructure for its opioid dependence therapy, Zubsolv (marketed by Orexo in the US and being out-licensed to partners ex-US). It also has three other clinical assets including OX124, which has reported positive Phase I results.

Next events

Q2 results 11 July 2019

Outlicensing of Zubsolv ex-US Ongoing

Q3 results 24 October 2019

FY19 results 30 January 2020

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Exhibit 1: Financial summary

	SEKm	2017 IFRS	2018 IFRS	2019e IFRS	2020e IFRS	2021e IFRS
Year end 31 December						
INCOME STATEMENT						
Revenue		643.7	783.1	877.9	854.1	928.2
Cost of Sales		(164.4)	(171.8)	(112.0)	(100.1)	(107.3)
Gross Profit		479.3	611.3	765.9	754.0	820.8
Reported operating profit		57.4	95.8	227.5	211.6	231.5
Joint ventures & associates (post tax)						
Profit before tax (reported)		29.7	92.2	224.9	195.1	208.8
Reported tax		(6.5)	45.7	1.6	(5.9)	(6.3)
Profit after tax (reported)		23.2	137.9	226.5	189.3	202.6
Minority interests		0.0	7.0	0.0	0.0	0.0
Basic average number of shares outstanding ('m)		35.0	34.6	34.6	34.6	34.6
EPS - basic reported (SEK)		0.67	3.99	6.55	5.47	5.85
EPS - normalised fully diluted		0.67	3.93	6.45	5.39	1.42
BALANCE SHEET						
Fixed assets		176.5	227.1	228.4	221.1	214.9
Intangible assets		121.0	103.9	92.4	83.5	75.5
Tangible assets		20.1	20.0	21.9	23.5	25.3
Investments & other		35.4	103.2	182.3	182.3	182.3
Current assets		827.4	1,059.5	1,283.1	1,479.6	1,688.4
Stocks		250.2	173.6	150.0	159.2	159.2
Debtors		249.3	296.1	374.0	317.5	344.8
Cash & cash equivalents		327.9	589.8	759.0	1,003.0	1,184.4
Other		0.0	0.0	0.0	0.0	0.0
Current liabilities		(349.9)	(483.4)	(496.9)	(496.9)	(496.9)
Creditors		0.0	0.0	0.0	0.0	0.0
Short-term borrowings		0.0	0.0	0.0	0.0	0.0
Other		(349.9)	(483.4)	(496.9)	(496.9)	(496.9)
Long-term liabilities		(324.9)	(327.1)	(374.0)	(374.0)	(374.0)
Long-term borrowings		(319.1)	(320.6)	(321.0)	(321.0)	(321.0)
Other long-term liabilities		(5.8)	(6.5)	(53.0)	(53.0)	(53.0)
Minority interests						
CASH FLOW						
Operating cash flow before WC and Tax		108.1	70.6	243.5	200.4	213.0
Working capital		0.0	116.7	(131.6)	47.4	(27.4)
Exceptional & other		(37.2)	(14.3)	(9.1)	(16.5)	(22.6)
Tax		0.0	(18.1)	(6.6)	(5.9)	(6.3)
Net operating cash flow		146.6	187.3	111.9	247.8	185.6
Capex		(1.6)	(6.8)	(4.0)	(3.9)	(4.2)
Acquisitions/disposals		0.0	0.0	0.0	0.0	0.0
Equity financing		0.1	0.0	0.0	0.0	0.0
Other		0.0	0.4	(10.7)	0.0	0.0
Net cash flow		145.1	261.9	152.0	244.0	181.4
Opening Net debt (cash)		115.4	(8.8)	(269.2)	(438.0)	(682.0)
Other		(20.9)	18.9	17.3	0.0	0.0
Closing Net debt (cash)		(8.8)	(269.2)	(438.0)	(682.0)	(863.4)

Source: Company accounts, Edison Investment Research

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