

# Photocure

Financial update

## A strong quarter

Photocure has announced results for Q119, with 26% revenue growth compared to Q118. Revenues grew strongly in the US, where Hexvix/Cysview sales increased 66% over the same quarter in the previous year and 15% sequentially. This was driven mainly by improved reimbursement and a higher installed base of blue light cystoscopes. There are now 171 installed cystoscopes in the US, 14 more than at the end of 2018 and 67 more than at the beginning of 2018.

Year end	Revenue (NOKm)	PBT* (NOKm)	EPS* (NOK)	DPS (NOK)	P/E (x)	Yield (%)
12/17	150.9	(41.6)	(1.61)	0.0	N/A	N/A
12/18	181.5	(22.5)	(1.04)	0.0	N/A	N/A
12/19e	241.2	8.8	0.28	0.0	175.0	N/A
12/20e	294.8	61.1	2.02	0.0	24.3	N/A

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

## Continued strong US growth

Q119 sales in the US increased 66% to NOK21.2m. This was helped by volume growth, a strong US dollar and increased prices. In US dollar terms, sales were up 52% compared to last year and unit sales increased 44% during the quarter. The total installed base of blue light cystoscopes (both rigid and flexible) increased to 171, up 64% from the 104 installed at the beginning of 2018.

## Improved reimbursement helping US growth

One of the reasons for the strong US growth has been improved reimbursement. Thanks to a decision by the US Centers for Medicare and Medicaid Services (CMS), effective from 1 January 2019, there is a new code that covers blue light cystoscopy with Hexvix/Cysview when used in physician offices and other sites. CMS also continued a specific complexity adjustment for certain procedures in hospital outpatient departments. As 73.4% of bladder cancer patients are over 65 (according to the National Cancer Institute) and hence covered by Medicare, obtaining improved reimbursement from CMS is especially important.

## Partner and Nordic sales growing

Nordic revenues were up 8% in Q119 and unit sales were up a strong 13% especially in Denmark where they were up 30%. Partner revenue increased 7% in the first quarter, mainly due to higher prices and beneficial moves in exchange rates. Unit sales were approximately flat compared with last year (up 0.3%), with growth coming mainly from Germany.

## Valuation: NOK1,256m or NOK58 per share

We have increased our valuation from NOK1,246m or NOK57 per basic share to NOK1,256m or NOK58 per basic share. The increase was mainly due to rolling forward our NPVs and was partially offset by a lower level of cash. With NOK91m in cash, Photocure should have enough capital to meet its needs, as we continue to expect profitability in 2019.

## Pharma & biotech

28 May 2019

**Price** **NOK49**
**Market cap** **NOK1068m**

NOK8.73/US\$

Net cash (NOKm) at 31 March 2019 91

Shares in issue 21.8m

Free float 75.2%

Code PHO

Primary exchange Oslo

Secondary exchange N/A

## Share price performance



%	1m	3m	12m
Abs	11.2	(3.7)	65.8
Rel (local)	16.7	(0.8)	75.1

52-week high/low NOK63.50 NOK27.10

## 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

Updates on US growth 2019

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## Q119 results

Photocure reported revenue of NOK52.2m for Q119, representing 26% growth over Q118, an acceleration compared to the 20% growth seen in 2018. Sales in the US continued to be strong, up 66% compared to Q118 (up 52% in US dollar terms), while sales in the US were up 15% sequentially. End-user unit sales were also strong, growing 44% for the quarter compared to last year, driven in part by an increase in the number of permanent blue light cystoscopes installed (currently 171, up from 157 at the beginning of 2019 and 104 at the beginning of 2018).

Revenues in the Nordic region increased 8% to NOK13.1m, but were down 3% sequentially. Unit sales were up a strong 13%, especially in Denmark where they were up 30%, although this was partially due to weakness in the Danish hospital market earlier last year. Denmark is the company's most successful market, where it estimates it has almost 75% market penetration (as opposed to the US where it has low single-digit penetration, leaving plenty of room to grow in that market).

Results in partnered areas increased 7% to NOK17.0m in the quarter compared to the same quarter last year and were up 18% compared to Q418. Unit sales were approximately flat compared with last year (up 0.3%), with growth mainly coming from Germany, which balanced out the declines in other countries.

SG&A for Q1 was up 19% to NOK47.3m compared with last year, but up only 0.8% sequentially. As a reminder, the company is increasing the number of customer-facing roles by 50% in the US over the course of this year, which will allow it to cover 75% of the metropolitan areas in the US and more than 750 accounts (up from 525 as of the Q418 results announcement). We believe this will mainly be achieved through repositioning current headcount. R&D expenses remained under control at NOK1.0m, down 61% compared to Q118, as the regulatory work surrounding FDA approval for the surveillance market has now been completed. EBITDA for the company was a loss of NOK1.5m, an improvement over the NOK4m loss in Q118. The commercial segment had positive EBITDA of NOK1.7m, an improvement over the NOK0.9m in EBITDA for the franchise seen in the same quarter last year.

## Valuation

We have increased our valuation from NOK1,246m or NOK57 per basic share to NOK1,256m or NOK58 per basic share. The increase was mainly due to rolling forward our NPVs and was partially offset by a lower level of cash. Cash fell by NOK15.4m, largely due to a NOK12.5m change in working capital, which offset a NOK11.9m working capital inflow in Q418 (the inflow temporarily made the company cash flow positive last quarter).

**Exhibit 1: Photocure valuation table**

Product	Main indication	Status	Probability of commercialisation	Launch year	Peak sales (NOKm)	Peak year	Economics	rNPV (NOKm)
Hexvix/Cysview	Bladder cancer detection	Market	100%	Launched	383	2024	Fully owned - US and Nordics, Partner with Ipsen in EU (35% royalty)	1,165
Total								1,165
Cash and cash equivalents (Q119)								91
Total firm value								1,256
Total basic shares (m)								21.8
Value per basic share (NOK)								58
Options (Q119, m)								0.1
Total number of shares (m)								21.9
Diluted value per share (NOK)								57

Source: Edison Investment Research

## Financials

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We have increased our revenue estimate for 2019 slightly to NOK241.2m from NOK240.1m, but have kept 2020 the same. Cost of goods sold has been running a little higher than we expected, and we have therefore increased our estimate by NOK5.7m for 2019 and by NOK3.1m for 2020. We have also increased our SG&A estimates by NOK9.2m for 2019 and NOK9.6m for 2020 due to the high run rate of spending and our expectation that the company will continue to increase its investment in the US market. Conversely, we have lowered R&D by NOK5.6m for 2019 and NOK5.8m for 2020 as spending has been much lower than expected, and focused mainly on intellectual property and some regulatory work. The company ended Q119 with NOK91m in cash, and we do not expect it to require further financing as we continue to forecast profitability in 2019.

**Exhibit 2: Financial summary**

	NOK'000s	2017	2018	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
Revenue		150,911	181,510	241,226	294,796
Cost of Sales		(12,011)	(17,147)	(22,519)	(23,773)
Gross Profit		138,900	164,362	218,708	271,023
Sales, General and Administrative Expenses		(149,098)	(165,530)	(191,305)	(198,957)
Research and Development Expense		(22,896)	(9,325)	(4,128)	(4,293)
EBITDA		(33,094)	(10,492)	24,119	67,773
Operating Profit (before amort. and except.)		(45,202)	(23,703)	9,597	61,964
Intangible Amortisation		0	0	0	0
Other		0	0	0	0
Exceptionals		0	(14,199)	0	0
Operating Profit		(45,202)	(37,902)	9,597	61,964
Net Interest		3,622	1,187	(786)	(817)
Other		0	0	0	0
Profit Before Tax (norm)		(41,580)	(22,516)	8,811	61,147
Profit Before Tax (FRS 3)		(41,580)	(36,715)	8,811	61,147
Tax		6,883	6	(2,698)	(16,510)
Deferred tax		(0)	(0)	(0)	(0)
Profit After Tax (norm)		(34,697)	(22,510)	6,114	44,637
Profit After Tax (FRS 3)		(34,697)	(36,709)	6,114	44,637
Average Number of Shares Outstanding (m)		21.6	21.6	21.9	22.1
EPS - normalised (ore)		(161)	(104)	28	202
EPS - FRS 3 (ore)		(161)	(170)	28	202
Dividend per share (ore)		0.0	0.0	0.0	0.0
<b>BALANCE SHEET</b>					
Fixed Assets		87,486	77,767	76,142	71,346
Intangible Assets		33,315	22,502	9,794	3,536
Tangible Assets		1,268	2,141	2,926	4,387
Other		52,903	53,124	63,423	63,423
Current Assets		175,613	153,429	167,286	217,924
Stocks		19,552	18,582	18,630	34,032
Debtors		14,573	20,371	26,584	29,480
Cash		129,368	106,833	111,219	143,561
Other		12,119	7,643	10,852	10,852
Current Liabilities		(40,267)	(52,453)	(48,551)	(48,551)
Creditors		(40,267)	(52,453)	(48,551)	(48,551)
Short term borrowings		0	0	0	0
Long Term Liabilities		(4,752)	(2,401)	(12,056)	(13,261)
Long term borrowings		0	0	0	0
Other long term liabilities		(4,752)	(2,401)	(12,056)	(13,261)
Net Assets		218,079	176,342	182,821	227,459
<b>CASH FLOW</b>					
Operating Cash Flow		(23,593)	(24,124)	5,608	33,355
Net Interest		0	0	0	0
Tax		0	0	0	0
Capex		(18,588)	(2,188)	(1,517)	(1,578)
Acquisitions/disposals		0	0	0	0
Financing		0	6,339	0	0
Dividends		0	0	0	0
Other		2,310	(2,562)	296	565
Net Cash Flow		(39,871)	(22,536)	4,387	32,342
Opening net debt/(cash)		(169,239)	(129,368)	(106,833)	(111,219)
HP finance leases initiated		0	0	0	0
Exchange rate movements		0	0	0	0
Other		0	1	-1	0
Closing net debt/(cash)		(129,368)	(106,833)	(111,219)	(143,561)

Source: Company accounts, Edison Investment Research

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