

Photocure

Firing on all cylinders

Financial update

Pharma & biotech

4 March 2020

Price **NOK83.8**
Market cap **NOK1,827m**

NOK9.45/US\$

Net cash (NOKm) at 31 December 2019 125

Shares in issue 21.8m

Free float 75.2%

Code PHO

Primary exchange Oslo

Secondary exchange N/A

Photocure announced very strong Q419 results, with 27% revenue growth for the Hexvix/Cysview franchise (vs Q418) to NOK58.8m, an acceleration from the 18% growth seen last quarter. The United States continued to be the main sales driver with revenues of NOK27.8m in Q419, which were up 51% compared to the same quarter last year. Importantly, the company has now indicated that it is targeting US revenues of \$70m (NOK658m at current exchange rates) in 2023. While ambitious, this would equate to less than 5% penetration of its addressable market.

Year end	Revenue (NOKm)	PBT* (NOKm)	EPS* (NOK)	DPS (NOK)	P/E (x)	Yield (%)
12/18	181.5	(22.5)	(1.04)	0.0	N/A	N/A
12/19	281.6	45.9	1.46	0.0	57.4	N/A
12/20e	289.5	54.9	1.82	0.0	46.0	N/A
12/21e	376.5	135.9	4.45	0.0	18.8	N/A

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

Continued strength in the US

Q419 sales in the US increased 51% to NOK27.8m and were up 55% for 2019. This was helped by volume growth, a strong US dollar and increased prices. In US dollar terms, sales were up 39% compared to Q418 and unit sales increased 34% during the quarter. The total installed base of blue light cystoscopes (both rigid and flexible) increased to 223, up 42% from the 157 installed at the beginning of 2019.

A US revenue target of \$70m for 2023

The company has indicated a target for US revenues of \$70m (NOK658m at current exchange rates), a significant increase from the NOK98.7m the company reported in the region in 2019. This would require a compound annual growth rate (CAGR) of over 60% over the period. While this is aggressive, given the size of the market it is achievable. Photocure would need to have an annual procedure run rate of around 70,000 in an addressable market with 300,000 TURBT procedures and 1.4m bladder cancer surveillance procedures (less than 5% total penetration).

Nordic and partner sales grow modestly

Nordic revenues were NOK14.5m, up 7% in Q419 compared to Q418, with unit sales flat. Full year 2019 Nordic revenues increased 3% while unit sales fell 2%. Partner revenue increased 14% in the fourth quarter due to currency fluctuations and increased unit sales, which were up 3% because of strength in Germany, Austria and the Netherlands. Year-to-date partner revenue is up 7%.

Valuation: NOK2,699m or NOK124 per share

We have increased our valuation from NOK1,546m or NOK71 per basic share to NOK2,699m or NOK124 per basic share following a review of our Hexvix/Cysview estimates. While we have markedly increased our estimates, we are still more conservative (NOK420m or \$45m in the US in 2023) than management's target, as such sustained high growth may be difficult to manage.

Share price performance



%	1m	3m	12m
Abs	(0.2)	(1.5)	113.5
Rel (local)	6.3	2.9	129.9

52-week high/low	NOK118.80	NOK38.50
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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 was licensed to Asieris, with an initial focus of development on China.

Next events

Updates on US growth	2020
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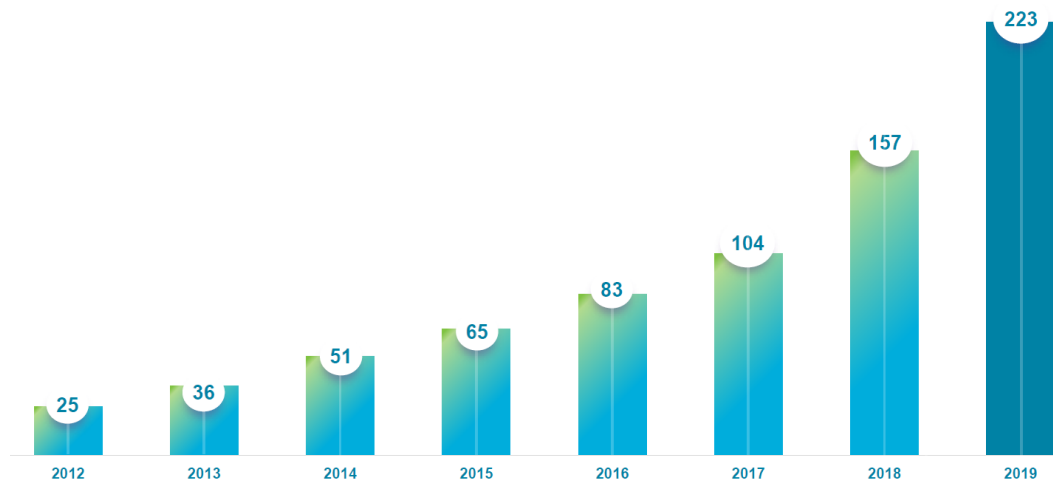
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Q4 results

Photocure reported total revenue of NOK115.6m for Q419, representing 132% growth over Q418. Included in the total revenue is NOK56.8m in other revenues, mostly associated with Asieris, a China-based specialty pharmaceutical company, licensing Cevira for HPV-related (cervical) diseases. Hexvix/Cysview sales were up 27%, growing to NOK58.8m. Sales in the US continued to be strong, up 51% compared to Q418 (up 39% in US dollar terms) and now representing over 47% of total Hexvix/Cysview revenues (up from 40% of revenues in Q418). End-user US unit sales were also strong, growing 34% for the quarter compared to last year, driven in part by an increase in the number of permanent blue light cystoscopes (BLC) installed. There are currently 223 installed, up 42% from the 157 at the beginning of the year (see Exhibit 1). 197 of the total are rigid cystoscopes, while 26 are flexible cystoscopes for use in the surveillance setting. This growth in the installed base is a good indicator of growth in upcoming periods.

Exhibit 1: Permanent blue light cystoscopes installed in the US



Source: Photocure

Another driver of US growth is improved reimbursement. Prior to 2018, CMS did not separately reimburse centres for use of the BLC with Hexvix/Cysview procedures, but instead bundled it with the total reimbursement for transurethral resection of bladder tumour (TURBT) procedures so any additional cost related to the product was absorbed by the centre. This has had a direct impact on the availability of BLC with Hexvix/Cysview in the US. Starting in 2018, there was a separate code for BLC with Hexvix/Cysview, which improved reimbursement in 2019 and will further improve in 2020. In November 2019, the company announced that CMS released its final rule, which increased reimbursement by \$92 in hospital outpatient departments starting in January 2020. The reimbursement differential with standard white light procedures is now \$1,247 in this setting.

Nordic revenues were NOK14.5m, up 7% in Q419 compared to Q418, with unit sales flat. Full year 2019 Nordic revenues increased 3% while unit sales fell 2%. The company has indicated that it has launched a number of initiatives to improve sales performance in this area, which accounts for 25% of sales. Partner revenue increased 14% in the fourth quarter due to currency fluctuations and increased unit sales, which were up 3% because of strength in Germany, Austria and the Netherlands. Year-to-date partner revenue is up 7%. As a reminder, Photocure is using partners such as Ipsen in the EU outside of the Nordics, BioSyent in Canada and Juno in Australia/New Zealand to market in such regions.

SG&A and other non-R&D operating expenses for Q4 were up 11% to NOK52.0m compared with last year. R&D expenses (excluding depreciation and amortization) remained under control at

NOK1.0m, down 51% compared to Q418, as it now consists of maintenance and expansion of Photocure's intellectual property and some regulatory work rather than discrete development programs (Asieris is responsible for funding the Cevira program). EBITDA for the company was NOK54.8m, a major improvement over the NOK4.1m loss (before restructuring) seen in the same quarter a year ago. The net income for the company was NOK42.5m compared to a NOK12.0m loss last year.

Valuation

We have increased our valuation from NOK1,546m or NOK71 per basic share to NOK2,699m or NOK124 per basic share following a review of our Hexvix/Cysview estimates (in which we changed our US sales estimates from 2021), as well as due to higher net cash and rolling forward our NPVs.

The company has indicated a target for US revenues of \$70m (NOK658m at current exchange rates), a significant increase from the NOK98.7m the company reported in the region in 2019. While this growth appears ambitious it may prove achievable. Assuming an average selling price of \$1,000, 70,000 procedures would need to be performed in 2023 to achieve this goal. 70,000 is less than 5% of the total number of TURBT and surveillance procedures performed in the United States every year. Additionally, there are currently over 6,000 hospitals in the United States, so between them and urology clinics located outside of hospitals, there is plenty of room for the installed base to grow (223 as of the end of 2019). Importantly, penetration outside of the United States is very high, at 25–70% in the Nordic region (depending on the country) and around 30% in Germany.

However, while we do feel this target of \$70m in sales in the US is achievable, our estimates for 2023 are substantially lower than that, at NOK420m (around \$45m) in sales. We would like to see if the company is able to sustain the growth rates necessary to achieve its goal prior to increasing our estimates further.

Exhibit 2: Photocure valuation model

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	621	2024	Fully owned – US and Nordics; Partner with Ipsen in EU (35% royalty)	2,279
Cevira	HPV-related diseases	Phase III	40% (China)/ 20% (US/EU)	2024 (China)	3,044	2034	10–20% royalty from Asieris	295
Total								2,574
Cash and cash equivalents (Q419)								125
Total firm value								2,699
Total basic shares (m)								21.8
Value per basic share (NOK)								124
Options (Q419, m)								0.1
Total number of shares (m)								21.9
Diluted value per share (NOK)								124

Source: Edison Investment Research

Financials

We have left our 2020 revenues estimates the same but increased our 2020 SG&A estimates by NOK4.5m due to a higher run rate of spending. We also introduce our 2021 estimates, which include NOK376.5m in revenues and NOK99.2m in net income. The company ended Q419 with NOK125m in cash, up from NOK96m at the end of Q3. We do not expect Photocure to require further financing as we expect it to be profitable on an annual basis from this point forward.

Exhibit 3: Financial summary

	NOK'000s	2018	2019	2020e	2021e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		181,510	281,557	289,518	376,518
Cost of Sales		(17,147)	(22,512)	(23,348)	(26,359)
Gross Profit		164,362	259,045	266,169	350,159
Sales, General and Administrative Expenses		(165,530)	(196,452)	(204,310)	(212,482)
Research and Development Expense		(9,325)	(3,644)	(3,790)	(3,941)
EBITDA		(10,492)	58,949	58,070	133,735
Operating Profit (before amort. and except.)		(23,703)	42,737	51,584	132,438
Intangible Amortisation		0	0	0	0
Other		0	0	0	0
Exceptionals		(14,199)	0	0	0
Operating Profit		(37,902)	42,737	51,584	132,438
Net Interest		1,187	3,165	3,291	3,423
Other		0	0	0	0
Profit Before Tax (norm)		(22,516)	45,901	54,876	135,861
Profit Before Tax (FRS 3)		(36,715)	45,901	54,876	135,861
Tax		6	(14,070)	(14,816)	(36,683)
Deferred tax		(0)	(0)	(0)	(0)
Profit After Tax (norm)		(22,510)	31,832	40,059	99,179
Profit After Tax (FRS 3)		(36,709)	31,832	40,059	99,179
Average Number of Shares Outstanding (m)		21.6	21.8	22.0	22.2
EPS - normalised (ore)		(104)	146	182	445
EPS - FRS 3 (ore)		(170)	146	182	446
Dividend per share (ore)		0.0	0.0	0.0	0.0
BALANCE SHEET					
Fixed Assets		77,767	70,476	63,344	62,250
Intangible Assets		22,502	11,605	3,802	1,901
Tangible Assets		2,141	2,040	2,711	3,518
Other		53,124	56,831	56,831	56,831
Current Assets		153,429	186,876	235,071	337,336
Stocks		18,582	16,410	33,423	43,466
Debtors		20,371	24,206	28,952	37,652
Cash		106,833	125,320	151,756	235,278
Other		7,643	20,940	20,940	20,940
Current Liabilities		(52,453)	(38,725)	(38,725)	(38,725)
Creditors		(52,453)	(38,725)	(38,725)	(38,725)
Short term borrowings		0	0	0	0
Long Term Liabilities		(2,401)	(10,036)	(11,040)	(12,144)
Long term borrowings		0	0	0	0
Other long term liabilities		(2,401)	(10,036)	(11,040)	(12,144)
Net Assets		176,342	208,591	248,650	348,717
CASH FLOW					
Operating Cash Flow		(24,124)	20,655	25,790	82,836
Net Interest		0	0	0	0
Tax		0	(0)	0	0
Capex		(2,188)	(1,086)	(1,117)	(1,149)
Acquisitions/disposals		0	0	0	0
Financing		6,339	0	0	0
Dividends		0	0	0	0
Other		(2,562)	(1,081)	1,764	1,834
Net Cash Flow		(22,536)	18,487	26,437	83,522
Opening net debt/(cash)		(129,368)	(106,833)	(125,320)	(151,756)
HP finance leases initiated		0	0	0	0
Exchange rate movements		0	0	0	0
Other		1	0	0	0
Closing net debt/(cash)		(106,833)	(125,320)	(151,756)	(235,278)

Source: Company accounts, Edison Investment Research

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