

Photocure

Financial update

Buying back rights from Ipsen

Pharma & biotech

Photocure has announced that it is in the process of re-acquiring the rights to Hexvix/Cysview in territories where Ipsen is currently marketing the product (primarily the EU). Key terms have been agreed upon and the transition is expected to occur in Q420. The key terms include a payment of €15m (NOK166m at the current exchange rate) from Photocure to Ipsen as well as royalty payments. Photocure expects the re-acquisition to be EBITDA accretive in 2021 and beyond. To fund the payment, Photocure has raised NOK143m in equity through a private placement.

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	48.6	N/A
12/20e	168.4	(60.7)	(3.12)	0.0	N/A	N/A
12/21e	266.1	38.0	1.17	0.0	60.7	N/A

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

COVID-19 affected Q120, but sales still grew

The COVID-19 pandemic had an impact on sales over the last three weeks of Q120, but across the entire quarter Hexvix/Cysview sales still grew by 6% compared to Q119 to NOK54.4m, driven by the US market, which grew 33% to NOK28.2m. The total installed base of blue light cystoscopes (both rigid and flexible) increased to 238, up 7% compared to the end of 2019 and up 39% compared to the same quarter last year.

Nordic and partner sales fell

Nordic revenues were NOK12.2m, down 7% in Q120 compared to Q119, with unit sales down 10%. Unit sales were affected by large deliveries to hospitals in Denmark at the end of 2019 as well as by COVID-19. Partner revenue decreased 18% to NOK14.0m with unit sales decreasing by 2%. Germany continues to grow but this was offset by weakness in other countries.

Significant potential in the EU once deal completed

The EU remain mostly an untapped market as Germany, with 30% market share, is the only member country approaching the penetration achieved in the Nordics (40%). France has less than 5% penetration and countries like the UK, Italy and Spain are near zero due to decisions by Ipsen either not to pursue them or to invest only limited resources. Going forward the EU could be a key driver for the company.

Valuation: NOK2,625m or NOK109 per share

We have decreased our valuation to NOK2,625m or NOK109 per basic share, from NOK2,699m or NOK124 per basic share, mainly due to a reduction in our near-term estimates due to COVID-19 affecting procedures (the per-share value was also affected by dilution from the capital raise). The reduction was offset in part by a higher net cash total and rolling forward our NPVs. As the Ipsen rights re-acquisition has not closed, we are not yet including its impact in our estimates.

13 May 2020

Price **NOK71.00**
Market cap **NOK1,702m**

NOK10.23/US\$

Net cash (NOKm) at 31 March 2019 (+ offering) 271

Shares in issue 24.0m

Free float 90.5%

Code PHO

Primary exchange Oslo

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 10.5 (25.9) 59

Rel (local) 7 (9.8) 88.6

52-week high/low NOK118.80 NOK42.50

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 (until Q420). Cevira was licensed to Asieris, with an initial focus of development on China.

Next events

Close of re-acquisition of rights from Ipsen Q420

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Q120 results

Photocure reported total revenue of NOK55.0m for Q120, representing 5% growth over Q119. Hexvix/Cysview sales were up 6%, growing to NOK54.4m. Sales in the US continued to be strong, up 33% compared to Q119 (up 21% in US dollar terms) despite the initial impacts of COVID-19 in March. End-user US unit sales were also strong, growing 17% for the quarter compared to Q119, driven in part by an increase in the number of permanent blue light cystoscopes (BLC) installed. There are currently 238 installed, up 7% compared to the end of 2019 and up 39% compared to the same quarter last year. 211 of the total are rigid cystoscopes, while 27 are flexible cystoscopes for use in the surveillance setting. This growth in the installed base is a good indicator of growth in upcoming periods (especially after an expected return to normalcy following the COVID-19 pandemic). With regards to the COVID-19 pandemic impact on operations in the US, the company is seeing the postponement of bladder cancer procedures but believes these will be prioritized and will be among the first to return as hospital operations return to normal. Q2 will likely be the low in terms of sales, barring a substantial increase in COVID-19 cases post-Q2 and expanded lockdowns.

Nordic revenues were NOK12.2m, down 7% in Q120 compared to Q119, with unit sales down 10%. Unit sales were affected by large deliveries to hospitals in Denmark at the end of 2019 as well as by COVID-19. Partner revenue decreased 18% to NOK14.0m with unit sales decreasing by 2%. Germany continues to grow but this was offset by weakness in other countries.

SG&A and other non-R&D operating expenses for Q1 were up 12% to NOK53.1m compared with last year. R&D expenses (excluding depreciation and amortization) remained under control at NOK0.5m, down 46% compared to Q119, 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 (before restructuring) for the company was a NOK4.8m loss, a slight increase compared to the NOK1.5m loss in the year ago quarter. There was likely a COVID-19 impact to these profitability numbers as the pandemic and resulting decrease in procedures was unexpected, so the revenue impact was not compensated with a reduction in expenses (though the company is taking cost saving measures in Q2).

Re-acquisition of Ipsen rights

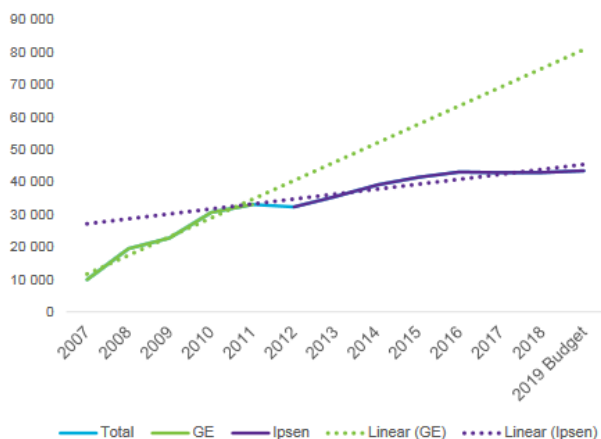
Photocure is in the process of re-acquiring the rights to Hexvix/Cysview in territories where Ipsen is currently marketing the product (primarily the EU). Key terms have been agreed upon though a final deal is still pending as final confirmatory due diligence has yet to be completed. The transition is expected to occur in Q420, which is when Photocure will start selling Hexvix/Cysview in the Ipsen territories. Photocure's book sales for the partnered regions are expected to triple (2019 royalty was NOK61m excluding IFRS adjustments) once it initiates sales though there will also be an impact on expenses. The company expects around NOK30m in integration and ramp-up costs in 2020, another NOK30–35m in SG&A for this year and NOK90m in increased SG&A for 2021. The agreement is expected to be EBITDA accretive for the full year 2021. Additionally, the company has announced that it is targeting NOK1bn in reported revenues for 2023 with 40% EBITDA margins as a result of the re-acquisition.

The key terms include a payment of €15m (NOK166m at the current exchange rate) from Photocure to Ipsen as well as royalty payments of 10–15% of sales over the first seven years and

7.5% for the following three years. To help fund the payment, Photocure has raised NOK143m through the sale of 2.2m shares at NOK65.50 per share.

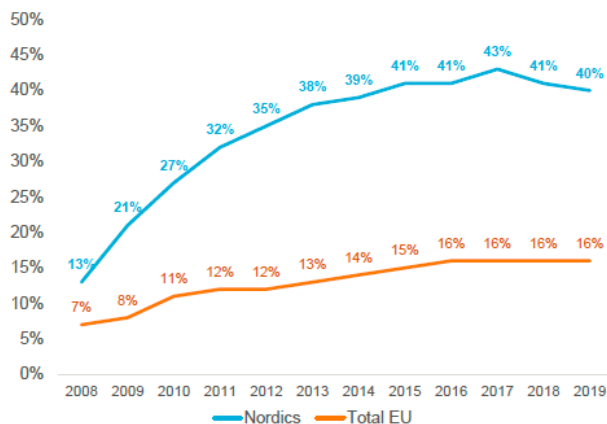
We believe that Photocure is re-acquiring the rights as it has so far been successfully marketing the product itself in the large US market and also due to lacklustre growth of Hexvix/Cysview under Ipsen's stewardship in the EU. Sales growth clearly slowed once Ipsen took control of marketing from GE Healthcare in 2011.

Exhibit 1: Unit sales and trendlines by partner (EU)



Source: Photocure

Exhibit 2: EU vs Nordics market share



Source: Photocure

The regions where Ipsen has been marketing Hexvix/Cysview remain mostly an untapped market as Germany, with 30% market share, is the only country approaching the market share achieved in the Nordics (40%). France has less than 5% penetration and countries like the UK, Italy and Spain are at close to zero due to decisions by Ipsen either to not pursue them or to invest only limited resources. The US will clearly remain the main driver for the company for the foreseeable future, but the EU could also provide a strong tailwind for the company. The company expects to see 20–30% growth in the EU after 2021.

Valuation

We have decreased our valuation to NOK2,625m or NOK109 per basic share, from NOK2,699m or NOK124 per basic share previously, mainly due to a reduction in our near-term estimates due to COVID-19 affecting procedures (the per-share value was also affected by the dilution of the capital raise). The reduction was offset in part by a higher net cash total and rolling forward our NPVs. As the Ipsen rights re-acquisition has not closed, we are not yet including its impact in our estimates.

Exhibit 3: 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	570	2024	Fully owned – US and Nordics; partner with Ipsen in EU (35% royalty)	2,051
Cevira	HPV-related diseases	Phase III	40% (China)/ 20% (US/EU)	2024 (China)	3,044	2034	10-20% royalty from Asieris	303
Total								2,354
Cash and cash equivalents (Q119 + raise)								271
Total firm value								2,625
Total basic shares (m)								24.0
Value per basic share (NOK)								109
Options (Q119, m)								0.1
Total number of shares (m)								24.0
Diluted value per share (NOK)								109

Source: Edison Investment Research

Financials

We have lowered our 2020 revenue estimates from NOK289.5m to NOK168.4m as we expect a severe decline stemming from COVID-19, with a low in quarterly sales in the second quarter and a recovery from there. We have also lowered our 2021 revenue estimates to NOK266.1m from NOK376.5m as the pace of new installations and sales contacts will likely be slower in 2020, hampering growth in the following year. Additionally, there is a risk of a second wave of COVID-19 infections occurring during the regular cold/flu season, which could lead to additional strains on the healthcare system and lockdowns that would have an impact on 2021.

We have lowered our SG&A estimates for both 2020 and 2021 by around NOK7m, though we might apply further reductions depending upon the cost saving initiatives taking place at the company. Our EBITDA estimate for 2020 is now a loss of NOK46.8m versus our previous estimate for a NOK58.1m profit as we have reduced our revenue estimates significantly with only minimal expense control. We expect a return to full year profit in 2021 with EBITDA of NOK39.5m (compared to NOK133.7m previously). As a reminder, none of these estimates include the re-acquisition of rights from Ipsen. Our estimates for revenues, SG&A and EBITDA will likely all increase once the deal closes, assuming no other major changes.

The company ended Q120 with NOK127.6m in cash, up from NOK125.3m at the end of Q4. The company raised NOK143m in equity at the end of April. We do not expect Photocure to require further financing as we believe it currently has enough cash to weather the COVID-19 pandemic in 2020 and make the necessary payments to Ipsen.

Exhibit 4: Financial summary

	NOK'000s	2018	2019	2020e	2021e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		181,510	281,557	168,358	266,107
Cost of Sales		(17,147)	(22,512)	(15,206)	(18,649)
Gross Profit		164,362	259,045	153,152	247,457
Sales, General and Administrative Expenses		(165,530)	(196,452)	(197,803)	(205,715)
Research and Development Expense		(9,325)	(3,644)	(2,132)	(2,217)
EBITDA		(10,492)	58,949	(46,783)	39,525
Operating Profit (before amort. and except.)		(23,703)	42,737	(62,217)	36,438
Intangible Amortisation		0	0	0	0
Other		0	0	0	0
Exceptionals		(14,199)	0	(1,894)	0
Operating Profit		(37,902)	42,737	(64,111)	36,438
Net Interest		1,187	3,165	1,516	1,577
Other		0	0	0	0
Profit Before Tax (norm)		(22,516)	45,901	(60,701)	38,015
Profit Before Tax (FRS 3)		(36,715)	45,901	(62,595)	38,015
Tax		6	(14,070)	(12,897)	(10,264)
Deferred tax		(0)	(0)	(0)	(0)
Profit After Tax (norm)		(22,510)	31,832	(73,598)	27,751
Profit After Tax (FRS 3)		(36,709)	31,832	(75,492)	27,751
Average Number of Shares Outstanding (m)		21.6	21.8	23.5	23.7
EPS - normalised (ore)		(104)	146	(312)	117
EPS - FRS 3 (ore)		(170)	146	(322)	117
Dividend per share (ore)		0.0	0.0	0.0	0.0
BALANCE SHEET					
Fixed Assets		77,767	70,476	45,707	46,984
Intangible Assets		22,502	11,605	582	524
Tangible Assets		2,141	2,040	1,892	3,227
Other		53,124	56,831	43,233	43,233
Current Assets		153,429	186,876	282,460	310,964
Stocks		18,582	16,410	16,905	30,720
Debtors		20,371	24,206	30,472	26,611
Cash		106,833	125,320	224,653	243,204
Other		7,643	20,940	10,430	10,430
Current Liabilities		(52,453)	(38,725)	(39,756)	(39,756)
Creditors		(52,453)	(38,725)	(39,756)	(39,756)
Short term borrowings		0	0	0	0
Long Term Liabilities		(2,401)	(10,036)	(9,785)	(10,764)
Long term borrowings		0	0	0	0
Other long term liabilities		(2,401)	(10,036)	(9,785)	(10,764)
Net Assets		176,342	208,591	278,626	307,429
CASH FLOW					
Operating Cash Flow		(24,124)	20,655	(40,075)	21,863
Net Interest		0	0	0	0
Tax		0	(0)	0	0
Capex		(2,188)	(1,086)	(3,796)	(3,907)
Acquisitions/disposals		0	0	0	0
Financing		6,339	0	143,000	0
Dividends		0	0	0	0
Other		(2,562)	(1,081)	204	595
Net Cash Flow		(22,536)	18,487	99,333	18,551
Opening net debt/(cash)		(129,368)	(106,833)	(125,320)	(224,653)
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)	(224,653)	(243,204)

Source: company reports, Edison Investment Research

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