

RedHill Biopharma

Company news

Cosmo deal – new asset, stronger balance sheet

On 18 October 2019, RedHill announced a strategic investment and in-licensing deal with Cosmo Pharmaceuticals, a European specialty GI pharma and diagnostics company (sales of €66m in 2018). RedHill will receive an exclusive licence for the US rights to a branded antibiotic, **Aemcolo (rifamycin)**, which was approved by the FDA for the treatment of traveller's diarrhoea in November 2018. In return, RedHill will pay Cosmo the stock equivalent of \$12m upfront, a royalty percentage on net sales in the high 20s and commercial milestone payments up to \$100m. Cosmo has also agreed to make a \$36.3m investment in RedHill at \$7/ADS (a 13.5% premium to the prior close; 20% stake after investment). The deal expands RedHill's specialty GI drug portfolio in the US and strengthens its balance sheet ahead of the expected launch of TALICIA (PDUFA date: 2 November 2019). Our valuation is \$556m or \$15.8/ADS.

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (\$)	DPS (\$)	P/E (x)	Yield (%)
12/17	4.0	(45.5)	(0.26)	0.0	N/A	N/A
12/18	8.4	(38.8)	(0.17)	0.0	N/A	N/A
12/19e	10.0	(39.5)	(0.10)	0.0	N/A	N/A
12/20e	13.0	(36.8)	(0.09)	0.0	N/A	N/A

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

Strategic fit, new largest shareholder

The specific structure of the deal seems to be a strategic fit both companies. Following the transaction RedHill will have cash of \$59m (no debt), which provides a higher degree of comfort given it is preparing for a potential launch of TALICIA for *H. pylori* infection. The newly in-licensed drug, Aemcolo (rifamycin 194mg delayed-released tablets), is a minimally absorbed antibiotic that the FDA approved for traveller's diarrhoea, so it is a good fit for RedHill's GI-focused drug portfolio. The drug has not yet been launched in the US, but consensus expects sales of \$152m in 2024 (EvaluatePharma). For Cosmo, which is now the largest shareholder, RedHill appears to be the right partner with the right commercial capacity in the US.

Now all eyes are on PDUFA date of 2 November 2019

RedHill is approaching a milestone event with the FDA due to release its assessment of the company's most advanced, internally developed combination therapy, TALICIA. Based on the data released, we assign a 90% probability of FDA approval due to the clean dataset from the Phase III trials. From a commercial perspective, RedHill is ready with a US salesforce in operation since mid-2017. Please see [our previous reports](#) for more detail on the market opportunity.

Valuation: \$556m or \$15.8 per ADS

Our RedHill valuation is \$556m or \$15.8 per ADS, versus \$518m or \$18.3 per ADS previously. Our absolute valuation is higher because we have included the new investment and rolled our model forward. The valuation per share is slightly lower due to a dilution effect, as our pre-issue valuation per share was higher than the market value. For the time being we make no other changes to our estimates.

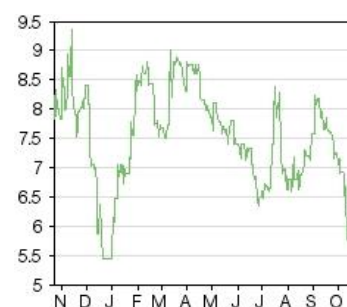
Pharma & biotech

22 October 2019

Price **US\$6.57**
Market cap **US\$186m**

Net cash (\$m) as of Cosmo deal announcement (dated 18 October 2019)	59.0
Shares in issue	283.7m
Free float	90%
Code	RDHL
Primary exchange	TASE
Secondary exchange (ADS 1:10)	NASDAQ

Share price performance



%	1m	3m	12m
Abs	(13.6)	(18.9)	(22.0)
Rel (local)	(14.0)	(19.7)	(28.2)
52-week high/low	US\$9.35	US\$5.18	

Business description

RedHill Biopharma is a speciality company with an R&D pipeline focusing on gastrointestinal (GI) and inflammatory diseases; earlier-stage assets also target various cancers. The most advanced products are TALICIA for *H. pylori* infection, RHB-104 for Crohn's disease (CD), RHB-204 for nontuberculous mycobacteria (NTM) infections and BEKINDA for gastroenteritis and IBS-D.

Next events

Expected FDA response on TALICIA's NDA	2 November
Initiation of pivotal Phase III activities with RHB-204 for NTM infections	Q419
FDA meetings to discuss Phase III trial with RHB-104 in CD	H219

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RedHill Biopharma is a research client of Edison Investment Research Limited

Exhibit 1: Financial summary

	\$000s	2017	2018	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		4,007	8,360	10,000	13,000
Cost of Sales		(2,126)	(2,837)	(3,500)	(4,550)
Gross Profit		1,881	5,523	6,500	8,450
Research and development		(32,969)	(24,862)	(22,684)	(22,976)
EBITDA		(51,891)	(39,241)	(39,451)	(36,732)
Operating Profit (before amort. and except.)		(51,972)	(39,331)	(39,545)	(36,831)
Intangible Amortisation		0	0	0	0
Exceptionals		0	0	0	0
Other		0	0	0	0
Operating Profit		(51,972)	(39,331)	(39,545)	(36,831)
Net Interest		6,428	511	0	0
Profit Before Tax (norm)		(45,544)	(38,820)	(39,545)	(36,831)
Profit Before Tax (reported)		(45,544)	(38,820)	(39,545)	(36,831)
Tax		0	0	0	0
Profit After Tax (norm)		(45,544)	(38,820)	(39,545)	(36,831)
Profit After Tax (reported)		(45,544)	(38,820)	(39,545)	(36,831)
Average Number of Shares Outstanding (m)		176.6	231.2	387.3	422.1
EPS - normalised (\$)		(0.26)	(0.17)	(0.10)	(0.09)
EPS - normalised fully diluted (\$)		(0.26)	(0.17)	(0.10)	(0.09)
EPS - (reported) (\$)		(0.26)	(0.17)	(0.10)	(0.09)
Dividend per share (\$)		0.0	0.0	0.0	0.0
Gross Margin (%)		46.9	66.1	65.0	65.0
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets		5,667	5,623	9,592	9,551
Intangible Assets		5,285	5,320	5,355	5,390
Tangible Assets		230	163	92	16
Investments		152	140	4,145	4,145
Current Assets		51,676	56,788	57,197	23,085
Stocks		653	769	1,300	1,300
Debtors		4,818	2,834	2,834	2,834
Cash		16,455	29,005	53,063	18,951
Other*		29,750	24,180	0	0
Current Liabilities		(11,830)	(10,381)	(12,302)	(12,302)
Creditors		(11,830)	(10,381)	(12,302)	(12,302)
Short term borrowings		0	0	0	0
Long Term Liabilities		(448)	(844)	(4,525)	(4,525)
Long term borrowings		0	0	0	0
Other long term liabilities		(448)	(844)	(4,525)	(4,525)
Net Assets		45,065	51,186	49,962	15,810
CASH FLOW					
Operating Cash Flow		(44,769)	(34,462)	(35,864)	(34,054)
Net Interest		0	0	0	0
Tax		0	0	0	0
Capex		(146)	(23)	(23)	(23)
Acquisitions/disposals		0	0	0	0
Financing		25,653	42,263	36,300	0
Other**		(18,069)	4,772	23,645	(35)
Dividends		0	0	0	0
Net Cash Flow		(37,331)	12,550	24,058	(34,112)
Opening net debt/(cash)		(53,786)	(16,455)	(29,005)	(53,063)
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		(16,455)	(29,005)	(53,063)	(18,951)

Source: RedHill Biopharma accounts, Edison Investment Research. Note: *Bank deposits and financial assets at fair value. **Includes bank deposits converted to cash and cash equivalents.

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