

# Orexo

Q3 results

## Blue Skies

The growing US Zubsolv franchise continues to drive Orexo's quarterly performance. Total Q3 revenue growth of c 30% puts Orexo in an attractive position with potential business development partners. Orexo's Q318 results were the first since Zubsolv's exclusivity was strengthened for another 13 years in the US, so with Zubsolv sales growing by 1.2% q-o-q in Q3, against the backdrop of a 0.3% decline in the buprenorphine/naloxone market volumes, and continued material CoGS improvements, Orexo is moving from strength to strength.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/16	705.9	35.6	0.84	0.0	74.4	N/A
12/17	643.7	29.7	0.67	0.0	93.3	N/A
12/18e	860.7	163.4	5.38	0.0	11.6	N/A
12/19e	948.6	154.1	4.32	0.0	14.5	N/A

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

## Q318 results

Total net revenues in Q318 were SEK216.6m, a 30.3% y-o-y increase, slightly below our estimates due to lower royalties from Abstral and Edluar. The main event – Zubsolv US revenue – was SEK165.4m (up 36.6% y-o-y in SEK terms, 24.3% in local currency), SEK4.4m above our estimates. The manufacturing efficiency programme reduced CoGS to SEK42.4m; lower than our recently reduced Q3 estimates of SEK49.6m and including a SEK1.5m stability testing cost. Gross cash balance at end-Q3 was SEK516.6m (SEK494.8m at end-Q218). Selling expenses of SEK51.5m were one-third lower than our estimates (despite integrating the US contract salesforce), as were R&D expenses, which, at SEK37.5m, were c 18% below our estimates. Administrative expenses of SEK50.8m were 60% higher than our estimates due to the SEK31.2m legal expense for the IP litigations. We have made adjustments accordingly but keep to FY18 opex guidance of c SEK500m. Profitability was enhanced by a SEK31.8m tax adjustment, which we are assuming was not a one-off and in Q318, it more than offset the IP litigation costs.

## New CFO, same company

Joseph DeFeo's promotion to CFO from head of finance and operations at Orexo US should be positively received by investors. The next strategic steps for Orexo are in-licensing of products and M&A to complement Orexo's US commercial operation (c 76% of total sales in Q318). These business development activities are crucial for Orexo's future success, as the wrong product, or overpaying for complementary products, could damage returns. The new CFO is as close to the US operations as anyone can be and should be cognisant of juggling these issues.

## Valuation: Virtually unchanged

We have revised our model for net cash and exchange rates. Our valuation increases only slightly to SEK3.4bn or SEK97.1 per share from SEK3.3bn or SEK94.5 per share previously.

## Pharma & biotech

29 October 2018

Price **SEK62.50**

Market cap **SEK2,163m**

\$/SEK9.1; €/SEK10.39

Net cash (SEKm) at end-Q318 196.4

Shares in issue 34.6m

Free float 53.8%

Code ORX

Primary exchange NASDAQ OMX Stockholm

Secondary exchange N/A

## Share price performance



% 1m 3m 12m

Abs (4.4) 45.4 22.6

Rel (local) 7.3 58.5 33.2

52-week high/low SEK72.9 SEK29.1

## 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 (out-licensed to a partner in Europe). It also has two other clinical assets and a Phase I product.

## Next events

OX124 Phase I start Q418

FY18 results January 2018

Product in-licensing/M&A Ongoing

## Analyst

Andy Smith +44 (0)20 3077 5700

[healthcare@edisongroup.com](mailto:healthcare@edisongroup.com)

[Edison profile page](#)

**Orexo is a research client of  
Edison Investment Research  
Limited**

**Exhibit 1: Financial summary**

SEKm	2015	2016	2017	2018e	2019e
Year-end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>					
Revenue	643.3	705.9	643.7	860.7	948.6
Cost of Sales	(136.1)	(149.6)	(164.4)	(178.2)	(196.0)
Gross Profit	507.3	556.3	479.3	682.5	752.6
Reported operating profit	(169.0)	51.7	57.4	170.6	197.7
Net Interest	(22.1)	(16.1)	(27.7)	(7.1)	(43.6)
Profit before tax (reported)	(191.1)	35.6	29.7	163.4	154.1
Reported tax	(6.9)	(6.5)	(6.5)	27.2	(4.6)
Profit after tax (reported)	(198.0)	29.0	23.2	190.6	149.5
Minority interests	0.0	0.0	0.0	4.6	0.0
Net income (reported)	(198.0)	29.0	23.2	186.0	149.5
Basic average number of shares outstanding	34.0	35.0	35.0	34.6	34.6
EPS - basic reported (SEK)	(5.74)	0.84	0.67	5.38	4.32
EPS - normalised fully diluted	(5.74)	0.84	0.67	5.33	4.25
<b>BALANCE SHEET</b>					
Fixed assets	185.9	185.1	176.5	212.2	204.8
Intangible assets	159.1	138.2	121.0	105.6	95.4
Tangible assets	24.7	22.1	20.1	20.5	23.2
Investments & other	2.1	24.8	35.4	86.1	86.1
Current assets	830.4	833.7	827.4	1,100.3	1,257.2
Stocks	398.9	344.2	250.2	150.0	150.0
Debtors	233.4	178.5	249.3	415.0	366.7
Cash & cash equivalents	198.1	282.4	327.9	535.3	740.6
Other	0.0	28.6	0.0	0.0	0.0
Current liabilities	(251.6)	(309.5)	(349.9)	(457.1)	(457.1)
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	(251.6)	(309.5)	(349.9)	(457.1)	(457.1)
Long-term liabilities	(498.3)	(399.0)	(324.9)	(326.8)	(326.8)
Long-term borrowings	(494.4)	(397.8)	(319.1)	(320.2)	(320.2)
Other long-term liabilities	(3.9)	(1.3)	(5.8)	(6.6)	(6.6)
Net assets	266.5	310.3	329.1	528.6	678.1
Shareholders' equity	266.5	310.3	329.1	528.6	678.1
<b>CASH FLOW</b>					
Operating cash flow before WC and Tax	(119.4)	67.5	108.1	145.9	161.8
Working capital	17.2	88.7	0.0	78.8	48.3
Exceptional & other	(20.6)	(20.8)	(37.2)	(15.4)	(43.6)
Tax	(6.9)	(7.5)	0.0	(16.3)	(4.6)
Net operating cash flow	(102.2)	156.2	146.6	224.7	210.1
Capex	(4.1)	0.5	(1.6)	(4.4)	(4.9)
Acquisitions/disposals	21.8	5.0	0.0	0.0	0.0
Equity financing	3.8	2.2	0.1	0.0	0.0
Other	0.0	0.0	0.0	0.4	0.0
Net cash flow	(80.7)	163.9	145.1	189.9	205.3
Opening Net debt (cash)	209.3	296.3	115.4	(8.8)	(215.1)
Other	(6.4)	17.0	(20.9)	18.9	0.0
Closing Net debt (cash)	296.3	115.4	(8.8)	(215.1)	(420.4)

Source: Orexo, Edison Investment Research

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Pty Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. [www.edisongroup.com](http://www.edisongroup.com)

#### DISCLAIMER

Copyright 2018 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Orexo and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2018. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.