EDISON

Biolight Life Sciences

Financial update

Funding provides breathing room

Pharma & biotech

BioLight raised NIS11.4m (gross) from the issuance of 908,540 shares in May 2018. We believe these funds should allow BioLight to fund its operations until at least H218, at which point we expect it to receive $12m from the second stage (out of four) of the IOPtima divestiture transaction. BioLight expects that upon completion of all stages (ie by mid-2021), it will receive gross proceeds of $23-27.3m for its entire holding.

Year end	Revenue (NISm)	PBT* (NISm)	EPS* (NIS)	DPS (NIS)	P/E (x)	Yield (%)
12/16	2.1	(26.3)	(5.37)	0.0	N/A	N/A
12/17	1.2	(26.6)	(5.29)	0.0	N/A	N/A
12/18e	0.9	(26.3)	(5.21)	0.0	N/A	N/A
12/19e	0.9	(26.3)	(5.56)	0.0	N/A	N/A

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

IOPtima sale cash infusions can fund VS-101 pipeline

In the three remaining stages of the IOPtima acquisition transaction, Chengdu Kanghong Pharmaceutical Group (Chengdu) will purchase 81% of IOPtima shares from remaining shareholders (including BioLight). The next (second) stage is anticipated in H218 and involves Chengdu acquiring 41% of IOPtima for $17.2m. We estimate that BioLight will receive c $12m in this stage, which should be sufficient for it to resume clinical development of the EyeD VS-101. The product is designed to deliver continuous-dose delivery of approved glaucoma drug latanoprost. A Phase IIb study could start in H218. We also estimate that BioLight will receive between c $11m and $15.3m in total in the final two stages (slated for Q219 and Q221) of the IOPtima sale.

TeaRx to start US pivotal study in H218

BioLight announced positive results in April 2018 for its third US study, a two-site 82-patient trial on its TeaRx dry eye syndrome (DES) diagnostic assay. The study showed that TeaRx was successful in differentiating patients with DES from those without the condition. BioLight will need to complete another US study prior to obtaining FDA 510(k) clearance, which it plans to start in H218. If successful, it can lead to a potential US launch for TeaRx as a diagnostic tool in H219.

Valuation: rNPV of NIS112.1–127.2m

BioLight consumed NIS6.2m in Q118 operating cash flow and it reported Q118 cash and equivalents of NIS33.3m, which includes NIS29.6m held at IOPtima (consolidated in BioLight's financials). Following the NIS11.4m financing, we estimate the parent company will have NIS11.3m net cash in Q218. We have not revised our EyeD VS-101 or TeaRx timing or US dollar-denominated sales forecasts, but adjustments for forex and the public market value of held Micromedic shares leads to an rNPV of NIS112.1–127.2m (vs NIS111.3-128.1m, previously). Once proceeds are received from the second tranche of the IOPtima sale (which we model will occur in Q318), we do not expect further funding to be needed to advance the development of BioLight's EyeD VS-101 and TeaRx programmes.

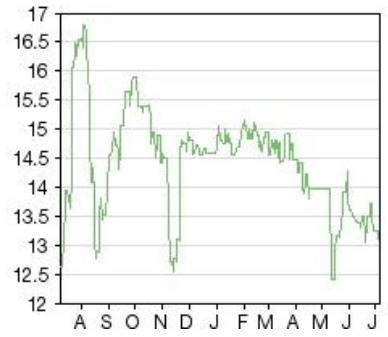
9 July 2018

Price*	**NIS13.10**
Market cap	**NIS60m**

*Priced at 05 July 2018

	NIS3.65/US$
Net cash (NISm) at Q218e	36.3
Shares in issue	4.6m
Free float	43%
Code	BOLT
Primary exchange	TASE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(3.0)	(7.9)	5.4
Rel (local)	(1.4)	(14.3)	(0.1)
52-week high/low	NIS16.8	NIS12.3	

Business description

Based in Israel, BioLight Life Sciences is an emerging ophthalmic company focused on the development and commercialisation of product candidates that address ocular conditions. VS-101 is directed towards the treatment of glaucoma and TeaRx is intended for use in dry eye diagnostics.

Next events

Start US pivotal study for TeaRx	H218
Start Phase IIb Eye-D VS-101 study	H218

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BioLight raises NIS11.4m through rights offering

BioLight completed a shareholder rights offering in May 2018, whereby existing shareholders were granted rights to subscribe up to 971,208 ordinary shares at a subscription price of NIS12.5 per share. The actual subscription rate was about 94%, resulting in gross proceeds of about NIS11.4m, leading to the issuance of 908,540 shares. BioLight's largest individual shareholders, Israel Makov, Dan Oren, Shanghvi Dilip and Lau Ngai Cheung together hold a total of about 56.62% of BioLight's issued and outstanding shares prior to the rights offering. They exercised their entire rights allocations (in accordance with their holdings prior to the rights offering) and have increased their collective share of BioLight ownership to 57.18%. We believe the additional funds raised through the rights offering should allow BioLight to fund its operations until and beyond the time (anticipated in H218) when it should receive proceeds from the second of four stages of the IOPtima divestiture transaction.

TeaRx to enter US pivotal trial in H218

BioLight's DiagnosTear subsidiary (of which it holds an 88% ownership interest) is advancing TeaRx, a rapid, semi-quantitative, point-of-care diagnostic providing a multi-assay analysis of tear film constituents to identify and monitor patients with DES. TeaRx is differentiated from most existing DES diagnostic tools in that it provides a semi-quantitative objective measure (ie a scale of up to eight different ranges) of three separate biomarkers using a single 2µL patient sample of tear film.

BioLight concluded two US clinical studies (in 2015 and 2016) comparing TeaRx's composite DES diagnostic measure with a composite of four established legacy DES assessment tests. The studies showed a strong positive correlation between TeaRx and the four applied diagnostic procedures. The company announced positive results in April 2018 for a third US study, an 82-patient TeaRx diagnostic study across two sites (41 healthy subjects, 41 with DES). The study confirmed the results from the two earlier US TeaRx studies, by again showing that TeaRx was successful in differentiating patients with DES from those without the condition. Given its discussions with the FDA, BioLight will need to complete another US study prior to obtaining FDA 510(k) regulatory clearance. BioLight plans to start the study in H218, which, if successful, can lead to a potential US launch for TeaRx as a diagnostic tool in H219.

BioLight also expects to submit the data from its completed studies as part of a CE mark filing in H218, which can lead to approval by the end of 2018. Although the company may conduct a 'soft' launch in certain smaller European markets in H218, we believe it plans to launch TeaRx in the larger European markets in conjunction with its planned US launch (H219), and hence we continue not to anticipate substantial TeaRx sales before H219.

Collaboration potential with Wize Pharma for TeaRx companion diagnostic

In February 2017, DiagnosTear entered into an agreement to provide development services to a undisclosed pharmaceutical company that would use TeaRx technology as part of a late-stage clinical trial for its DES drug candidate to help differentiate populations of drug responders or non-responders. Under their agreement, DiagnosTear was entitled to hundreds of thousands of NIS (company guidance). The clinical trial was finished in late 2017, and BioLight reports that initial data suggested TeaRx was effective in differentiating potential responsive and non-responsive subpopulations. BioLight recently disclosed that it is in discussions with another firm, Wize Pharma,

to potentially to involve the TeaRx technology as a companion diagnostic device in Wize Pharma's next, larger clinical study on its dry eye and Sjogren's disease product candidate (LO2A eye drops).

Q118 results unremarkable

BioLight reported Q118 results in May 2018, with revenue of NIS0.599m (up 69% year-on-year), an operating loss of NIS5.2m (down 18% year-on-year), and a reported net loss of NIS6.0m (down 21% year-on-year). The 2017 net loss figure included NIS3.1m in losses attributable to non-controlling interests, including those attributed to the Micromedic subsidiary (BioLight owns 24.4% of Micromedic and consolidates its financials in its results[1]). Excluding the non-controlling interests, the 2017 net loss attributable to BioLight shareholders was NIS2.9m. Although BioLight consolidates the financial results of the Micromedic subsidiary in its financials, our forecasts do not include projections or considerations for Micromedic.

Of the reported Q118 revenue, NIS0.223m was attributable to Micromedic and the remaining NIS0.376m was related to BioLight's commercial-stage ophthalmic businesses (primarily IOPtima[2] sales and TeaRx through its collaboration with Wize Pharma). While BioLight does not break down its revenue by product line or subsidiary, we estimate the majority of reported Q118 revenue reflected IOPtima-related sales (including capital equipment sales and per-procedure recurring revenue), with a lesser portion due to residual TeaRx-related revenue from its collaboration with Wize Pharma.

The majority of IOPtima sales are to Asian markets (eg, China) but sales activity had been restrained in recent quarters given that the primary distributor in China had suspended continuing sales due to IOPtima's ongoing negotiations at the time for it to be sold to Chinese pharmaceutical company Chengdu. With the first portion of the IOPtima sales transaction now complete, Chengdu becomes the current distributor in Asia.

BioLight Q118 balance sheet reflects first stage of IOPtima deal

As reported in our 24 April 2018 update note, BioLight announced on 29 March that the first stage of the agreement for the sale of IOPtima to Chengdu was completed, whereby Chengdu placed a direct investment of $7m into IOPtima for a 19% stake in the company. This values IOPtima at about $37m (including the added capital infusion). No IOPtima shareholders (including BioLight) received any cash proceeds from this stage of the transaction.

Prior to the Chengdu investment, BioLight (through its wholly owned XL Vision Sciences subsidiary) owned about 70% of IOPtima's share capital, and two investment funds held the majority of the remaining c 30%. Following the completion of the first stage, BioLight holds approximately 57% of the issued and outstanding share capital of IOPtima (and approximately 55% on a fully-diluted basis).

BioLight continues to consolidate IOPtima's financials onto its results. BioLight reported Q118 cash and equivalents of NIS33.3m, up from NIS15.4m at YE17 despite the negative NIS6.2m in Q118 operating cash flow. The increase in BioLight's reported consolidated cash position is due to the increase of IOPtima's cash position following Chengdu's investment. Of the NIS33.3m reported cash position at Q118, only NIS1.6m was held at the parent company (BioLight), as NIS29.6m was

[1] At 31 March 2018 (Q118), BioLight held 27% of Micromedic shares. The percentage ownership has since decreased to 24.4% as Micromedic closed a public offering in Q218.

[2] IOPtima's core product is IOPtiMate, a proprietary carbon-dioxide laser-assisted sclerectomy device marketed for the treatment of glaucoma

held at IOPtima, NIS1.4m was held at Micromedic, and NIS0.7m was held at other BioLight subsidiaries. The parent company's net cash position at the end of Q118 being lower than the companywide quarterly operating burn rate, this explained the firm's imminent need at the time to raise cash resources, which was successfully done as part of the rights offering transaction described earlier.

In parallel with the increase in IOPtima's cash position and the decrease in BioLight's proportionate ownership in IOPtima (as of Q118), BioLight reported a significant increase in non-controlling interests in its Q118 balance sheet; non-controlling interest rose to NIS22.6m at Q118, up from NIS1.9m at the end of 2017.

Remaining IOPtima stages can deliver cash inflows to BioLight

In the three subsequent stages of the IOPtima acquisition transaction, which are contingent on the fulfilment of several specified pre-conditions, Chengdu will purchase the outstanding IOPtima shares from the remaining shareholders (including BioLight), which should lead to cash infusions to BioLight. The preconditions include the completion of certain IOPtima operational objectives including the renewal of IOPtiMate's registration with the Chinese Food and Drug Authority, as well as the continued approval by the applicable Chinese authorities to permit the outflow of investment capital (and the associated forex conversions) to purchase assets outside of China (to allow for the payment by Chengdu for the acquisition of IOPtima shares at each stage).

The second stage of the transaction has been guided to occur within six months of the first; hence we estimate it would occur in H218. In this second stage, Chengdu would acquire additional shares in IOPtima from the existing shareholders (reflecting 41% of total shares outstanding) for $17.2m (about NIS60.7m), thereby raising its stake to 60%. Based on such metrics, IOPtima would be valued at about $42m by this point, and BioLight's equity ownership stake in IOPtima would be reduced to c 27-28%. If all necessary conditions are met, as we anticipate, we estimate that BioLight will receive approximately $12m in cash proceeds as part of this stage. BioLight expects to cease consolidating IOPtima in its financial statements once the second stage of the transaction is completed.

Up to $27.3m in total proceeds for IOPtima sale by mid-2021

In the final two stages, scheduled for Q219 and Q221, Chengdu would acquire the remaining shares in IOPtima (acquiring 20% in each stage), with the price to be paid determined using a formula dependent on IOPtima's profitability and operational results (and calculated separately for each stage), and that can reflect an IOPtima valuation of between $40.5m and $56.25m. By the end of the fourth stage, Chengdu will have full ownership and control of IOPtima. If the transaction is completed in its entirety, BioLight expects it will generate gross cash flow proceeds between $23m and $27.3m (ie by mid-2021).

EyeD VS-101 awaiting return to clinic

The Eye-D VS-101 is an insert that is placed in the lower lid conjunctiva in an in-office procedure that delivers a controlled amount over several months of latanoprost, a widely used prostaglandin F2α analogue that lowers intraocular pressure (IOP) in patients with glaucoma. The product is being developed as an extended-dose treatment for glaucoma by BioLight's ViSci subsidiary (in which it holds a 97% interest).

In July 2017, BioLight reported positive results from its 12-week Phase I/IIa study on Eye-D VS-101, which assessed 77 patients across 19 US clinical sites. The firm reported that a single placement of Eye-D VS-101 at one of the three tested doses provided a sustained reduction in diurnal IOP of 24% at 12 weeks; in this arm, baseline diurnal IOP was 23.5mmHg and 12-week diurnal IOP was 17.9mmHg. We continue to believe there is a strong unmet need for continuous-

dosage glaucoma medication delivery systems, given that many patients are elderly and may have difficulties applying topical eye drops properly each day, and poor treatment compliance is associated with worsening glaucoma progression. We continue to estimate a continuous glaucoma drug delivery system such as Eye-D VS-101 could target up to 30% of the glaucoma population, or up to 0.83 million people in the US, reflecting those patients poorly compliant with topical medication.

We believe the next step for VS-101 development will likely be a larger Phase IIb study, which is based on the identified preferred dose found in the previously completed Phase I/IIa study. BioLight may seek to partner the product prior to starting the next study, but it may also do the trial on its own, and it has not yet provided guidance as to when it plans to start the study.

We continue to assume that BioLight will start the Phase IIb study in H218, and will spend c $7m in VS-101 R&D from mid-2018 through study completion in H219. We continue to assume a 505(b)2 development pathway, with BioLight partnering the product prior to the start of Phase III studies. We estimate the Phase III study would start in H219 at the earliest, and that commercialisation would occur in 2021. We continue to assume that BioLight will be entitled to a 25% royalty on net sales.

Financials

While BioLight reported NIS33.3m in cash and equivalents at Q118, only NIS1.6m was held at the parent company. Following the NIS11.4m equity raise through the shareholder rights offering, we expect BioLight will report NIS36.3m at Q218 in net consolidated cash and equivalents (which also includes amounts held at IOPtima and BioLight's other subsidiaries). We estimate BioLight will report NIS11.3m in net cash at Q218 at the parent company level.

As BioLight expects to cease consolidating its financial reports with those of IOPtima once the second stage of the divestiture transaction is completed, we no longer project any IOPtima-related revenues and expenses in our forecasts starting in Q318.

Once proceeds are received from the second tranche of the IOPtima sale (which we model will occur in Q318), we do not expect further funding to be needed to support BioLight's development programmes, as we expect BioLight to partner Eye-D VS-101 prior to the commencement of Phase III pivotal studies. We expect VS-101 to be launched in 2021 and BioLight would subsequently generate sustainable positive cash flows.

Valuation

Following the release of Q118 financials, we have made minor adjustments to our G&A forecasts for the remainder of 2018 and for 2019; we have not revised our R&D cost assumptions. We now expect 2018 G&A costs of NIS8.9m versus our prior estimate of NIS7.6m, while our 2019 G&A estimate remains NIS7.9m. We expect 2018 and 2019 operating cash burn rates of NIS27.6m and NIS24.6m, respectively, versus our prior estimates of NIS25.8m and NIS24.7m. We have not changed our US-dollar denominated sales or peak market share forecasts for TeaRx or Eye-D VS-101.

Although there are conditions attached to the remaining stages of the IOPtima transaction, including operational objectives that must be met for the second (and subsequent) stages to proceed, we view most of these as customary for a transaction of this nature and in our view it is likely the transaction will be completed as planned or guided by the company. That said, we continue to attach a discounted-factor analysis to the expected cash flows to BioLight as part of the different parts of the transaction.

The table below provides a summary analysis of the expected proceeds to BioLight and timing for stages two through four of the purchase transaction. We apply a 12.5% discount rate to these cash flows (for illustrative purposes only, the final column also shows the present value if a higher 25% discount rate is used). For stages three and four, for the assumed sales of BioLight's remaining IOPtima shares, we assume the mid-point of the IOPtima value range provided by the terms of the transaction ($48.38m, or midway between $40.5m to $56.25m figures provided by the firm). Based on this analysis, we estimate that the total non-discounted proceeds to BioLight from the sale of its IOPtima stake would be $25.3m. Using a 12.5% annual discount rate, that the discounted proceeds would be $22.2m (NIS81.2m).

Exhibit 1: Assessment of cash flows to be received as part of IOPtima sale to Chengdu

Transactions stage	Period	Estimated ownership (%) of IOPtima held by BioLight before sale*	Estimated change in BioLight's IOPtima stake (%)*	Non-discounted cash proceeds ($m)	Proceeds discounted at 12.5% pa	Proceeds discounted at 25.0% pa
1	Q118	70	15.0**	0.0**	0.0	0.0
2	Q318	55	27.5	12.0	11.7	11.3
3	Q219	27.5	13.75	6.65	5.9	5.3
4	Q221	13.75	13.75	6.65	4.7	3.4
Total			**55**	**25.30**	**22.2**	**20.1**

Source: Edison Investment Research. Note: *Expressed as a percentage of total IOPtima shares outstanding. ** In the first stage, Chengdu made a $7m direct investment into IOPtima for a 19% stake (resulting in the issuance of new IOPtima shares), and no proceeds were provided to existing IOPtima shareholders including BioLight.

We continue to apply an rNPV model with a 12.5% cost of capital. For both Eye-D VS-101 and TeaRx, we provide a weighted rNPV based on BioLight's ownership of the associated subsidiary company.

Exhibit 2: BioLight Life Sciences rNPV assumptions

Product contributions (net of R&D costs)	Indication	rNPV (NISm)	rNPV/share (NIS)	Probability of success	Launch year	Peak sales (US$m)
VS-101 (97% weighted)	Glaucoma	128.6	27.91	30.0%	2021	72.3 in 2027
TeaRx (88% weighted)	DES diagnosis	27.6	6.00	50.0%	2019	20.7 in 2026
Corporate costs & expenses						
SG&A expenses		(56.6)	(12.29)			
Net capex, NWC & taxes		(57.2)	(12.41)			
Discounted value of future IOPtima sale proceeds		81.2	17.62			
Value of Micromedic shares (MCTC, TASE)*		3.4	0.75			
Total rNPV		127.1	27.58			
Net cash (debt) (Q218e) excluding net cash held by IOPtima subsidiary		11.3	2.45			
Total equity value**		138.4	30.03			
FD shares outstanding (000s) (Q218e)		4,608				

Source: Edison Investment Research. Note: *6.64m shares held with 27 June 2018 price of NIS0.518 per share; **excludes the impacts from any dilution resulting from any future equity offerings

After including the discounted proceeds from the IOPtima sale in our valuation and adjusting the forex assumptions (and the public market value of held Micromedic shares), we now obtain an rNPV of NIS112.1-127.2m (vs NIS111.3-128.1m, previously). We continue to assume that none of the cash held at IOPtima will be returned to BioLight following the completion of the Chengdu transaction. Hence, the net cash position (NIS11.3m at Q218e) used in our equity valuation calculation now excludes the amount of net cash held at the IOPtima subsidiary (estimated at NIS25.0m at Q218).

Exhibit 3: Financial summary

NIS(000)	2015	2016	2017	2018e	2019e	2020e
31-December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	1,391	2,111	1,209	949	927	7,913
Cost of Sales	(734)	(996)	(759)	(378)	(417)	(3,561)
Sales, General & Administrative	(11,956)	(10,360)	(12,424)	(8,943)	(7,871)	(9,499)
Research & Development	(13,045)	(10,982)	(14,794)	(15,666)	(17,000)	(5,800)
EBITDA	(24,344)	(20,227)	(26,768)	(24,038)	(24,361)	(10,947)
Depreciation	(1,306)	(3,190)	(351)	(2,000)	(2,400)	(2,400)
Amortization	0	0	0	0	0	0
Operating Profit (before exceptionals)	(25,650)	(23,417)	(27,119)	(26,038)	(26,761)	(13,347)
Exceptionals	(2,475)	(7,357)	(207)	0	0	0
Other	0	0	0	0	0	0
Operating Profit	(28,125)	(30,774)	(27,326)	(26,038)	(26,761)	(13,347)
Net Interest	543	(2,836)	483	(217)	485	333
Profit Before Tax (norm)	(25,107)	(26,253)	(26,636)	(26,255)	(26,276)	(13,014)
Profit Before Tax (FRS 3)	(27,582)	(33,610)	(26,843)	(26,255)	(26,276)	(13,014)
Tax	0	0	0	0	0	0
Profit After Tax and minority interests (norm)	(16,784)	(14,467)	(17,053)	(22,745)	(25,607)	(13,256)
Profit After Tax and minority interests (FRS 3)	(19,259)	(21,824)	(17,260)	(22,745)	(25,607)	(13,256)
Average Number of Shares Outstanding (m)	2.4	2.7	3.2	4.4	4.6	4.6
EPS - normalised (NIS)	(6.96)	(5.37)	(5.29)	(5.21)	(5.56)	(2.88)
EPS - normalised and fully diluted (NIS)	(6.96)	(5.37)	(5.29)	(5.21)	(5.56)	(2.88)
EPS - (IFRS) (NIS)	(7.98)	(8.10)	(5.35)	(5.21)	(5.56)	(2.88)
Dividend per share (NIS)	0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET						
Fixed Assets	9,832	5,282	4,903	11,130	15,130	13,730
Intangible Assets	6,869	3,910	3,910	3,910	3,910	3,910
Tangible Assets	2,963	1,372	993	7,220	11,220	9,820
Current Assets	53,439	30,031	19,860	34,162	28,992	17,652
Short-term investments	385	417	412	387	387	387
Cash	50,697	25,057	15,355	33,775	27,503	12,931
Other	2,357	4,557	4,093	0	1,101	4,334
Current Liabilities	(6,605)	(6,988)	(7,259)	0	(153)	(669)
Creditors	(6,605)	(6,988)	(7,259)	0	(153)	(669)
Short term borrowings	0	0	0	0	0	0
Long Term Liabilities	(9,605)	(11,915)	(9,473)	(9,801)	(9,801)	(9,801)
Long term borrowings	0	0	0	0	0	0
Other long term liabilities	(9,605)	(11,915)	(9,473)	(9,801)	(9,801)	(9,801)
Net Assets	47,061	16,410	8,031	35,491	34,168	20,912
CASH FLOW						
Operating Cash Flow	(24,580)	(24,106)	(25,801)	(27,646)	(24,641)	(13,906)
Net Interest	543	(2,836)	483	(217)	485	333
Tax	0	0	0	0	0	0
Capex	(182)	(370)	(117)	(8,149)	(6,400)	(1,000)
Acquisitions/disposals	(837)	(227)	(402)	43,822	24,284	0
Financing	47,320	2,554	10,976	11,400	0	0
Net Cash Flow	22,264	(24,985)	(14,861)	19,210	(6,271)	(14,573)
Opening net debt/(cash)	(28,604)	(51,082)	(25,474)	(15,767)	(34,162)	(27,890)
HP finance leases initiated	0	0	0	0	0	0
Other	214	(623)	5,154	(815)	0	0
Closing net debt/(cash)	(51,082)	(25,474)	(15,767)	(34,162)	(27,890)	(13,318)

Source: BioLight Life Sciences reports, Edison Investment Research. Note: The reported financial results (from 2017 and earlier) consolidate Micromedic's financials, and forecast financial results (2018e and beyond) do not include Micromedic operations.

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