

Photocure

Financial update

US sales up 53% compared to last year

Pharma & biotech

Photocure announced Q319 results, with 18% revenue growth for the Hexvix/Cysview franchise (vs Q318) to NOK51.1m. US sales of NOK25.2m were up 53% as the region continues to be the growth driver for the company while both Nordic and partner revenue fell (by 7% and 2% respectively) compared to the same period a year ago. Sales in the US continue to be driven mainly by improved reimbursement, added sales resources and a higher installed base of blue light cystoscopes. There are now 211 installed cystoscopes in the US, indicating 12% growth in the installed base over the quarter and up 34% since the beginning of 2019.

Year end	Revenue (NOKm)	PBT* (NOKm)	EPS* (NOK)	DPS (NOK)	P/E (x)	Yield (%)
12/17	150.9	(41.6)	(1.61)	0.0	N/A	N/A
12/18	181.5	(22.5)	(1.04)	0.0	N/A	N/A
12/19e	255.8	26.2	0.63	0.0	91.6	N/A
12/20e	289.5	58.4	1.93	0.0	29.9	N/A

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

US sales continue to be strong

Q319 sales in the US increased 53% to NOK25.2m and are now up 57% year-to-date. This was helped by volume growth, a strong US dollar and increased prices. In US dollar terms, sales were up 42% compared to Q318 and unit sales increased 34% during the quarter. The total installed base of blue light cystoscopes (both rigid and flexible) increased to 211, up 34% from the 157 installed at the beginning of 2019.

US reimbursement continues to improve

Earlier in November, the company announced that the US Centers for Medicare and Medicaid Services (CMS) released its final rule, which has increased reimbursement for blue light cystoscopy (BLC) procedures with Hexvix/Cysview by \$92 when used in hospital outpatient departments. The reimbursement differential with standard white light procedures is now \$1,247 in this setting. The new reimbursement level will take effect 1 January 2020.

Nordic sales continue to struggle

Nordic revenues were NOK9.9m, down 7% in Q319 compared to Q318, with unit sales down 12%. Year-to-date Nordic revenues are still up 1% while unit sales are down 3%. Partner revenue fell 2% in the third quarter due to IFRS 15 adjustments, with unit sales up 4% (down less than 1% sequentially), because of strength in Germany and France. Year-to-date partner revenue is up 4%.

Valuation: NOK1,546m or NOK71 per share

We have increased our valuation to NOK1,546m or NOK71 per basic share, from NOK1,506m or NOK69 per basic share. The increase was mainly due to rolling forward our NPVs as well as a higher cash balance. We forecast that Photocure, with NOK96m in cash, is fully funded to execute its current business plans.

13 November 2019

Price **NOK57.70**
Market cap **NOK1,258m**

NOK9.14/US\$

Net cash (NOKm) at 30 September 2019 96

Shares in issue 21.8m

Free float 75.2%

Code PHO

Primary exchange Oslo

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	7.7	4.3	52.2
Rel (local)	4.1	(4.0)	55.0

52-week high/low NOK60.90 NOK33.40

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 2019

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Q3 results

Photocure reported total revenue of NOK60.8m for Q319, representing 37% growth over Q318. Included in the total revenues is \$1m (NOK8.7m) from Asieris, a China-based specialty pharmaceutical company, which recently licensed Cevira for HPV-related (cervical) diseases. An additional \$2m was received in October, with the remaining \$2m of the signing fee expected by the end of the year. Hexvix/Cysview sales were up 18%, growing to NOK51.1m. Sales in the US continued to be strong, up 53% compared to Q318 (up 42% in US dollar terms) and now representing over 49% of total Hexvix/Cysview revenues (up from 38% of revenues in Q318). 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 211 installed, up 12% from the 188 at the end of last quarter and up 34% from the 157 at the beginning of the year (see Exhibit 1). 189 of the total are rigid cystoscopes while 22 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

INSTALLED BASE OF CYSTOSCOPES IN THE US



Source: Photocure

Another driver of US growth has been 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 TURBT (transurethral resection of the bladder tumour) 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 which will further improve in 2020. Earlier in November of this year, the company announced that CMS released its final rule, which will increase reimbursement by \$92 in the hospital outpatient departments. The reimbursement differential with standard white light procedures is now \$1,247 in this setting and will take effect on 1 January 2020.

Revenues in the Nordic region were NOK9.9m, down 7% in Q319 compared to Q318 with unit sales down 12%. Year-to-date Nordic revenues are still up 1% while unit sales are down 3%. The company has indicated that it has launched a number of initiatives to improve sales performance in this area, which now accounts for only 19% of sales. Partner revenue fell 2% in the third quarter due to IFRS 15 adjustments, with unit sales up 4% (down less than 1% sequentially), because of strength in Germany and France. Year-to-date partner revenue is up 4%. As a reminder, Photocure

is using partners such as Ipsen in the EU outside of the Nordics, BioSynt in Canada and Juno in Australia/New Zealand to market in such regions.

SG&A for Q3 was up 15% to NOK47.3m compared with last year, but down 5% sequentially. As a reminder, the company is increasing the number of customer-facing roles by 50% in the US over the course of this year, which will allow it to cover 75% of the metropolitan areas in the US and more than 700 accounts. R&D expenses (excluding depreciation & amortization) remained under control at NOK0.6m, down 76% compared to Q318, 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 NOK8.3m, a major improvement over the NOK3.1m loss seen in the same quarter a year ago. The net loss for the company was NOK0.6m due to a tax expense of NOK5.9m for the quarter, which is a non-cash charge following changes in a deferred tax asset that was related to the Asieris signing fee for Cevira.

Valuation

We have increased our valuation to NOK1,546m or NOK71 per basic share, from NOK1,506m or NOK69 per basic share. The increase was mainly due to rolling forward our NPVs as well as a higher cash balance.

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	376	2024	Fully owned – US and Nordics; partner with Ipsen in EU (35% royalty)	1,164
Cevira	HPV-related diseases	Phase III	40% (China)/ 20% (US/EU)	2024 (China)	3,044	2034	10–20% royalty from Asieris	286
Total								1,450
Cash and cash equivalents (Q319)								96
Total firm value								1,546
Total basic shares (m)								21.8
Value per basic share (NOK)								71
Options (Q319, m)								0.1
Total number of shares (m)								21.9
Diluted value per share (NOK)								71

Source: Edison Investment Research

Financials

We have decreased our revenue estimate for 2019 from NOK260.9m to NOK255.8m due to a slightly lower run rate of Hexvix/Cysview sales, especially outside the US. We have also decreased our SG&A estimates by NOK6.3m for 2019 and NOK6.3m for 2020 due to the lower run rate of spending. The company ended Q319 with NOK96m in cash, and we do not expect it to require further financing as we expect the company to be profitable on an annual basis from this point forward.

Exhibit 3: Financial summary

	NOK000s	2017	2018	2019e	2020e
Year end 31 December		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		150,911	181,510	255,775	289,518
Cost of Sales		(12,011)	(17,147)	(19,744)	(23,348)
Gross Profit		138,900	164,362	236,031	266,169
Sales, General and Administrative Expenses		(149,098)	(165,530)	(192,078)	(199,761)
Research and Development Expense		(22,896)	(9,325)	(3,252)	(3,382)
EBITDA		(33,094)	(10,492)	40,700	63,025
Operating Profit (before amort. and except.)		(45,202)	(23,703)	24,281	56,458
Intangible Amortisation		0	0	0	0
Other		0	0	0	0
Exceptionals		0	(14,199)	0	0
Operating Profit		(45,202)	(37,902)	24,281	56,458
Net Interest		3,622	1,187	1,880	1,955
Other		0	0	0	0
Profit Before Tax (norm)		(41,580)	(22,516)	26,161	58,413
Profit Before Tax (FRS 3)		(41,580)	(36,715)	26,161	58,413
Tax		6,883	6	(12,396)	(15,772)
Deferred tax		(0)	(0)	(0)	(0)
Profit After Tax (norm)		(34,697)	(22,510)	13,765	42,642
Profit After Tax (FRS 3)		(34,697)	(36,709)	13,765	42,642
Average Number of Shares Outstanding (m)		21.6	21.6	21.8	22.0
EPS - normalised (ore)		(161)	(104)	63	193
EPS - FRS 3 (ore)		(161)	(170)	63	194
Dividend per share (ore)		0.0	0.0	0.0	0.0
BALANCE SHEET					
Fixed Assets		87,486	77,767	69,660	62,943
Intangible Assets		33,315	22,502	10,278	2,550
Tangible Assets		1,268	2,141	2,350	3,359
Other		52,903	53,124	57,033	57,033
Current Assets		175,613	153,429	171,419	221,858
Stocks		19,552	18,582	18,059	33,423
Debtors		14,573	20,371	20,071	28,952
Cash		129,368	106,833	123,855	150,049
Other		12,119	7,643	9,434	9,434
Current Liabilities		(40,267)	(52,453)	(39,464)	(39,464)
Creditors		(40,267)	(52,453)	(39,464)	(39,464)
Short term borrowings		0	0	0	0
Long Term Liabilities		(4,752)	(2,401)	(10,790)	(11,869)
Long term borrowings		0	0	0	0
Other long term liabilities		(4,752)	(2,401)	(10,790)	(11,869)
Net Assets		218,079	176,342	190,826	233,467
CASH FLOW					
Operating Cash Flow		(23,593)	(24,124)	18,683	26,044
Net Interest		0	0	0	0
Tax		0	0	0	0
Capex		(18,588)	(2,188)	(1,180)	(1,224)
Acquisitions/disposals		0	0	0	0
Financing		0	6,339	0	0
Dividends		0	0	0	0
Other		2,310	(2,562)	(480)	1,374
Net Cash Flow		(39,871)	(22,536)	17,023	26,194
Opening net debt/(cash)		(169,239)	(129,368)	(106,833)	(123,855)
HP finance leases initiated		0	0	0	0
Exchange rate movements		0	0	0	0
Other		0	1	(1)	0
Closing net debt/(cash)		(129,368)	(106,833)	(123,855)	(150,049)

Source: Company accounts, Edison Investment Research

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