

Orexo

Q219 results

By leaps and bounds

After a strong Q119, which is seasonally the weakest quarter, Orexo also had a higher bar to beat Q218 due to milestone income making it one of its best ever quarters. Nevertheless, total Q219 revenues rose 0.8% to SEK201.2m. Zubsolv continued to perform well with Q219 sales of SEK184.4m, even against generic film and sublingual tablet competition.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/17	643.7	29.7	0.67	0.0	106.9	N/A
12/18	783.1	92.2	3.99	0.0	17.9	N/A
12/19e	879.4	220.6	6.12	0.0	11.7	N/A
12/20e	852.3	187.1	4.91	0.0	14.6	N/A

Note: *PBT and EPS are as reported.

Zubsolv sales continue to grow

Orexo's financial results are driven by US Zubsolv sales, which were SEK184.4m in Q219 (SEK158.4m in Q218). Total Q219 sales rose by 0.8% to SEK201.2m (vs SEK199.7m in Q218 which included c SEK31m in milestone income), while costs were reduced over Q119 (which had included one-off IP litigation costs) and helped Q219 profit after tax increase to SEK54.6m (vs SEK50.1m in Q218). Our estimate of total operating expense in FY19 remains at SEK545m, just above Orexo's guidance of c SEK500m. Another profitable quarter increased Orexo's gross cash balance to SEK697m, above our SEK683m estimate. An increasing cash balance remains key to Orexo's stated aim of in-licensing or M&A to gain new products. Conversely, the re-partnering of ex-US Zubsolv rights may also increase Orexo's cash balance, although the quality of the partner and terms are more important than the quantum of any upfront payment.

Generic Suboxone film bears watching

The sales volume of Zubsolv in the US continues to increase, while the launch of five generics to Indivior's Suboxone film seems to have mainly shifted the market between branded and generic sublingual films, and has not materially affected sublingual tablets. Nevertheless, with market share shifts for a product that previously comprised more than half of the total opioid use disorders market, this developing dynamic bears watching.

Valuation: Minor increase for forex and profitability

We have made minor changes to our model to include revenue growth, profitability, the small debt reduction in August and the strength of the US dollar. These changes almost cancel each other out and our valuation is virtually unchanged at SEK3.46bn, or SEK98.79 per share. There is a strategic tension between Orexo's continued profitability, its investment in the pipeline and the acquisition of new products from outside the company. Since last summer when Orexo won the patent litigation against Actavis, the expansion of its product portfolio has become increasingly important. This will continue over the next year as its minor products lose exclusivity and we trust Orexo's prudence in this important diversification of revenues.

Pharma & biotech

15 July 2019

Price **SEK71.6**
Market cap **SEK2549m**

\$/SEK; €/SEK

Net cash (SEKm) at end-Q219 375

Shares in issue 35.6m

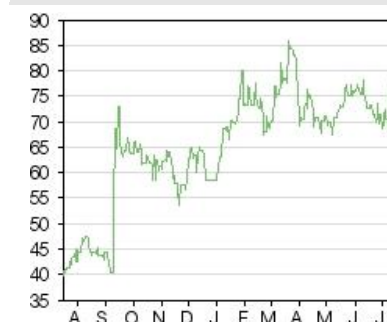
Free float 54.2%

Code ORX

Primary exchange NASDAQ QMX Stockholm

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (3.6) (4.5) 89.7

Rel (local) (6.0) (6.0) 75.7

52-week high/low SEK85.7 SEK38.4

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 (marketed by Orexo in the US and being out-licensed to partners ex-US). It also has three other clinical assets including OX124, which has reported positive Phase I results.

Next events

Out-licensing of ex-US Zubsolv Ongoing

In-licensing and M&A Ongoing

Q319 results 24 October 2019

FY19 results 30 January 2020

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Recent developments after Q219

Zubsolv licence to Mundipharma in Australia and New Zealand

The financial terms of the recent licensing of Zubsolv to Mundipharma for Australia and New Zealand were not disclosed. This suggests that any upfront payment was not material, but Orexo has previously stated that the quality of the partner is much more important than the upfront payments for any of its products licensed outside the US. The Zubsolv launch is now in Mundipharma's hands in Australia and New Zealand and is scheduled for early 2020. We have not included any additional ex-US Zubsolv royalties for the foreseeable future until more detail is available. At the very least, with the minor product Abstral losing exclusivity in the EU and US over the next year or so, the start of Zubsolv royalties from this new licence may offset the decline in Abstral EU royalties which were c SEK80m in 2018.

Debt pay-down

More recently, Orexo announced the prepayment of SEK32.5m, about 10%, of its corporate bond. This debt repayment was less than 5% of its cash or less than one quarter of its operating cash flow. The debt pay-down will be in August 2019 with the remainder being due in November 2021 and we have included this debt reduction tranche and corresponding cash balance reduction in Q319 in our model. This is not a surprising move since the interest rate is Stibor (currently 0.005%) plus 4.50%. In the future, we expect that capital allocation will be split between the clinical development of its pipeline, in-licensing and M&A activities (which appear to be at an advanced stage), and now debt retirement as Orexo becomes more comfortable with its long-term cash generation post the Actavis patent infringement win, and available strategic opportunities.

Exhibit 1: Financial summary

	SEKm	2017	2018	2019e	2020e	2021e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		643.7	783.1	879.4	852.3	926.2
Cost of Sales		(164.4)	(171.8)	(119.2)	(106.1)	(113.8)
Gross Profit		479.3	611.3	760.2	746.1	812.5
Reported operating profit		57.4	95.8	215.5	204.9	224.3
Joint ventures & associates (post tax)						
Profit before tax (reported)		29.7	92.2	220.6	187.1	200.5
Reported tax		(6.5)	45.7	(0.4)	(5.6)	(6.0)
Profit after tax (reported)		23.2	137.9	220.2	181.5	194.5
Minority interests		0.0	7.0	(0.5)	0.0	0.0
Basic average number of shares outstanding ('m)		35.0	34.6	36.1	37.0	37.0
EPS - basic reported (SEK)		0.67	3.99	6.12	4.91	5.26
BALANCE SHEET						
Fixed assets		176.5	227.1	233.0	225.6	219.3
Intangible assets		121.0	103.9	90.8	82.0	74.1
Tangible assets		20.1	20.0	21.2	22.6	24.2
Investments & other		35.4	103.2	186.5	186.5	186.5
Current assets		827.4	1,059.5	1,292.9	1,481.8	1,682.6
Stocks		250.2	173.6	150.0	159.2	159.2
Debtors		249.3	296.1	377.3	316.7	344.1
Cash & cash equivalents		327.9	589.8	765.6	1,005.8	1,179.3
Other		0.0	0.0	0.0	0.0	0.0
Current liabilities		(349.9)	(483.4)	(516.1)	(516.1)	(516.1)
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		(349.9)	(483.4)	(516.1)	(516.1)	(516.1)
Long-term liabilities		(324.9)	(327.1)	(338.6)	(338.6)	(338.6)
Long-term borrowings		(319.1)	(320.6)	(288.8)	(288.8)	(288.8)
Other long-term liabilities		(5.8)	(6.5)	(49.8)	(49.8)	(49.8)
Minority interests						
CASH FLOW						
Operating cash flow before WC and Tax		108.1	70.6	243.2	192.4	204.7
Working capital		0.0	116.7	(128.0)	51.4	(27.4)
Exceptional & other		(37.2)	(14.3)	(8.1)	(17.8)	(23.8)
Tax		0.0	(18.1)	(13.9)	(5.6)	(6.0)
Net operating cash flow		146.6	187.3	115.2	243.8	177.4
Capex		(1.6)	(6.8)	(3.7)	(3.6)	(3.9)
Acquisitions/disposals		0.0	0.0	0.0	0.0	0.0
Equity financing		0.1	0.0	0.0	0.0	0.0
Other		0.0	0.4	(14.5)	0.0	0.0
Net cash flow		145.1	261.9	150.4	240.3	173.5
Opening net debt (cash)		115.4	(8.8)	(269.2)	(476.8)	(717.0)
Other		(20.9)	18.9	25.4	0.0	0.0
Closing net debt (cash)		(8.8)	(269.2)	(476.8)	(717.0)	(890.5)
Source: Orexo, Edison Investment Research						

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