

# Orexo

## EU launch milestone achieved

Milestone achieved

Yesterday Orexo announced the launch of Zubsolv in the EU by its partner Mundipharma, triggering a €3m (c SEK30.6m) milestone payment. Zubsolv is Orexo's biggest product, which the company markets itself in the US. The EU launch of Zubsolv by Mundipharma may be underappreciated by investors for reasons we explain below. We have adjusted our model to include net cash including the milestone payment and exchange rate changes which amend our valuation to SEK67.8 per share from SEK63.0 per share.

Year end	Revenue (SEKm)	PBT* (SEKm)	EPS* (SEK)	DPS (SEK)	P/E (x)	Yield (%)
12/16	705.9	35.6	0.8	0.0	37.9	N/A
12/17	643.7	29.7	0.7	0.0	43.3	N/A
12/18e	736.3	108.9	2.9	0.0	10.4	N/A
12/19e	894.4	162.2	4.5	0.0	6.7	N/A

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

## Zubsolv comes to the EU (and other markets)

Orexo's biggest product by sales is Zubsolv (buprenorphine and naloxone sublingual tablet), which accounted for 94% of total Q118 revenues, or SEK131m. It has now been launched in the EU by partner Mundipharma for the treatment of opioid dependence. The launch triggers a €3m (c SEK30.6m) milestone, which we have included in our model, and has a number of additional unappreciated facets. Orexo markets Zubsolv itself in the US but a partner's launch in the EU has no operational cost to Orexo apart from the cost of goods. In any event, these will be included in a transfer price. The higher manufacturing volumes of Zubsolv produced by Orexo for itself and Mundipharma could further contribute to lowering Orexo's cost of goods. Mundipharma's licence is for exclusive ex-US rights, not just for the EU, so the EU launch would ease Mundipharma's approvals in other international markets. We have forecasted EU Zubsolv royalties starting in H218.

## Competitor generic launches may be an opportunity for Orexo

Last week's FDA approvals of Mylan and Dr Reddy's generic versions of Indivior's Suboxone (buprenorphine and naloxone sublingual film) was not good news for Indivior's shareholders, but we are not expecting any near-term effects on Orexo. This is because the two products are different formulations, any launches are 'at risk' (subject to a restraining order) and there have been sublingual generic tablet formulations available for some time against which Orexo competes, although Orexo's continued marketing has resulted in growing Zubsolv volumes. Furthermore, we believe Orexo has contracts with US insurers with terms of a year or longer.

## Valuation: Updated for milestone trigger

We have updated our model for net cash including the milestone payment and exchange rate changes. Our valuation has increased to SEK2.37bn or SEK67.8 per share from SEK2.20bn or SEK63.0 per share previously.

### Pharma & biotech

19 June 2018

Price **SEK30.30**

Market cap **SEK1,048m**

\$/SEK8.83;€/SEK10.25

Estimated net debt (SEKm) June 2018 149

Shares in issue 34.6m

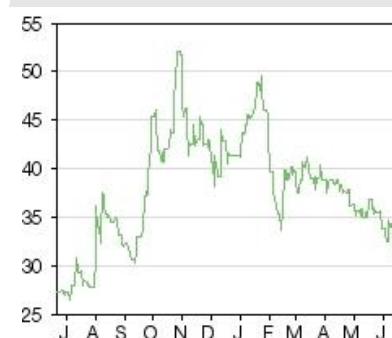
Free float 37.6%

Code ORX

Primary exchange NASDAQ QMX  
Stockholm

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs (17.8) (22.4) 9.8

Rel (local) (15.8) (23.2) 12.8

52-week high/low SEK52.0 SEK26.4

### 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 opioid dependence therapy, Zubsolv (also filed in Europe). It also has two clinical assets and three preclinical programmes.

### Next events

Q218 results 11 July 2018

Actavis IP appeal Q218

Q318 results October 2018

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**Exhibit 1: Financial summary**

SEKm	2014	2015	2016	2017	2018e	2019e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>						
Revenue	570.3	643.3	705.9	643.7	736.3	894.4
Cost of Sales	(107.4)	(136.1)	(149.6)	(164.4)	(178.2)	(171.7)
Gross Profit	462.9	507.3	556.3	479.3	558.1	722.8
Reported operating profit	(25.0)	(169.0)	51.7	57.4	121.8	199.5
Net Interest	(27.6)	(22.1)	(16.1)	(27.7)	(13.0)	(37.3)
Profit before tax (reported)	(52.6)	(191.1)	35.6	29.7	108.9	162.2
Reported tax	(4.0)	(6.9)	(6.5)	(6.5)	(6.4)	(4.9)
Profit after tax (reported)	(56.6)	(198.0)	29.0	23.2	102.4	157.3
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net income (reported)	(56.6)	(198.0)	29.0	23.2	102.4	157.3
Basic average number of shares outstanding	33.0	34.0	35.0	35.0	34.9	35.0
EPS - basic reported (SEK)	(1.73)	(5.74)	0.84	0.67	2.93	4.50
EPS - normalised fully diluted	(1.73)	(5.74)	0.84	0.67	2.93	4.50
Revenue growth (%)	32.8	12.8	9.7	(8.8)	14.4	21.5
Gross margin (%)	81.2	78.8	78.8	74.5	75.8	80.8
<b>BALANCE SHEET</b>						
Fixed assets	289.5	185.9	185.1	176.5	166.5	158.2
Intangible assets	197.0	159.1	138.2	121.0	109.3	98.8
Tangible assets	29.1	24.7	22.1	20.1	21.7	24.0
Investments & other	63.4	2.1	24.8	35.4	35.4	35.4
Current assets	936.4	830.4	833.7	827.4	992.0	1,157.6
Stocks	478.1	398.9	344.2	250.2	150.0	150.0
Debtors	173.8	233.4	178.5	249.3	301.5	329.9
Cash & cash equivalents	284.5	198.1	282.4	327.9	540.5	667.6
Other	0.0	0.0	28.6	0.0	0.0	0.0
Current liabilities	(268.1)	(251.6)	(309.5)	(349.9)	(349.9)	(349.9)
Creditors	0.0	0.0	0.0	0.0	0.0	0.0
Short-term borrowings	(1.9)	0.0	0.0	0.0	0.0	0.0
Other	(266.2)	(251.6)	(309.5)	(349.9)	(349.9)	(349.9)
Long-term liabilities	(502.8)	(498.3)	(399.0)	(324.9)	(325.3)	(325.3)
Long-term borrowings	(493.8)	(494.4)	(397.8)	(319.1)	(319.5)	(319.5)
Other long-term liabilities	(9.0)	(3.9)	(1.3)	(5.8)	(5.8)	(5.8)
Net assets	455.0	266.5	310.3	329.1	483.2	640.6
Shareholders' equity	455.0	266.5	310.3	329.1	433.7	591.0
<b>CASH FLOW</b>						
Operating cash flow before WC and Tax	(35.5)	(119.4)	67.5	108.1	116.1	170.1
Working capital	(451.8)	17.2	88.7	0.0	65.1	(28.5)
Exceptional & other	(19.0)	(20.6)	(20.8)	(37.2)	(13.0)	(37.3)
Tax	(4.0)	(6.9)	(7.5)	0.0	(6.4)	(4.9)
Net operating cash flow	(487.3)	(102.2)	156.2	146.6	181.2	141.6
Capex	(71.7)	(4.1)	0.5	(1.6)	(3.7)	(4.5)
Acquisitions/disposals	0.0	21.8	5.0	0.0	0.0	0.0
Equity financing	349.3	3.8	2.2	0.1	0.0	0.0
Other	390.1	(1.2)	(92.8)	(85.5)	0.0	0.0
Net cash flow	180.4	(81.9)	71.1	59.6	212.6	137.2
Opening net debt (cash)	105.6	284.5	198.1	282.4	327.9	540.5
FX	(1.5)	(4.5)	13.3	(14.1)	0.0	0.0
Closing net debt (cash)	284.5	198.1	282.4	327.9	540.5	677.6
Source: Orexo, Edison Investment Research						

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