

Photocure

HOLD

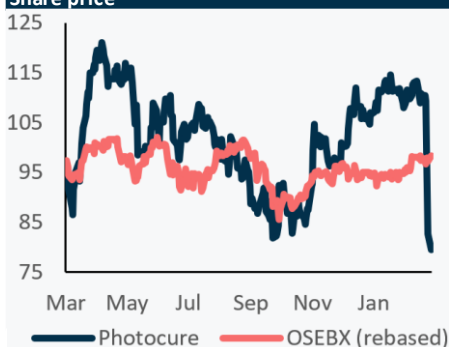
Key share data

Sector	Health Care
Reuters	PHO.OL
Bloomberg	PHONO

Market Cap (NOKm)	2,210
Net debt (NOKm)	-256
EV (NOKm)	1,955
Net debt / equity	-55%

Issued shares (m)	27
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Share price



Performance

	1m	3m	12m
PHO	-26%	-16%	-16%
OSEBX	5%	2%	4%

Upcoming events

AGM	May 3, 2023
1Q23 report	May 10, 2023
2Q22 report	August 9, 2023
3Q22 report	November 8, 2023

Norne Securities AS is a market maker in the shares of Photocure

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Confidence to be regained

Photocure released its 4Q report last week with very weak figures and disappointing guidance. PHO faces numerous headwinds and 4Q has been especially difficult. However, the worst seems to be behind, and the figures should improve. Still, we believe investors' confidence needs to be regained post the recent turbulence and the street's estimates are still not that low. Therefore, we keep our Hold recommendation unchanged at a lower TP of NOK 90/sh (120/sh). Having said that, we still believe in the strong long-term potential of Hexvix/Cysview.

Very weak 4Q figures

Photocure released its 4Q22 report on February 23rd with very weak figures. Revenues ex. milestones were just NOK 95m which is surprisingly down QoQ and in line with last year. The figure was 15% below our projection of NOK 112m (cons. at NOK 109m). Top line was helped by another the milestone payment received from Photocure's partner Asieris of USD 1m related to the further progress in the development of Cevira. Costs were also higher than in our model and EBITDA came in at NOK -17m vs NOK +3m estimated by us. Adj. for the milestone (one-off), EBITDA was even weaker at NOK -26m. Photocure indicates that NOK 9m were spent on business development in the quarter, an unusually high figure vs NOK 3-4m being more normal level in 1-3Q22.

4Q/22 results	4Q/21	3Q/22	4Q/22	4Q/22E	Deviation
NOKm			Reported	Norne	
Sales revenues	94.5	97.5	94.9	112.3	-15%
Signing fees, milestones etc.	0.0	9.3	9.3	0.0	nm
EBITDA adj.	-5.5	-4.6	-26.1	3.2	nm
EBITDA	-5.5	4.7	-16.9	3.2	nm
EBIT	-11.5	-1.4	-23.1	-2.8	nm
Pretax profit	-33.0	-6.3	-28.6	-9.0	nm
Net earnings	-28.2	-9.9	-21.5	-7.0	nm
EPS rep. (NOK)	-1.04	-0.37	-0.79	-0.26	nm
EPS adj. (NOK)	-0.53	-0.45	-1.09	-0.26	nm

Record new BLC installations

Hexvix/Cysview sales were down 7% YoY (-12% QoQ) in 4Q, which was led by staffing shortages and hospital budget tightening. PHO sees signs of rebound in 1Q23. The new blue light cystoscope (BLC) installations in the quarter were very high. 31 new BLCs were installed in 4Q in addition to the OPP program replacements of 26. PHO indicates that the pipeline continues to be strong for future installations as well. On the negative side, the flexible cystoscope installations were halted due to supply component disruptions. Timeline of the resolution of the problem is yet to be confirmed.

Guidance for 2023 below expectations

2023 financial goals were released in the report for the first time in several years. PHO expects 65-75 new BLC Saphira installations this year, which should lead to product revenue growth of above 20%. The company's goal is also for positive EBITDA generation in 2023 ex-business development. This was well below our and consensus expectation, thus, estimates were cut.

Estimates slashed, but Hold reiterated at new TP of NOK 90/sh (120)

After a weak report, our estimates were cut dramatically, and new TP stands at NOK 90/sh (120). We, however, keep our Hold recommendation unchanged and believe the company will regain investors' confidence, but it will take time.

DCF model (Cevira milestones excluded) - no generic competition

NOKm	2023E	2024E	2025E	2026E	2027E	2027-2031E
Revenues	469	558	694	869	1,043	5,509
EBIT incl. payments to Ipsen	-46	18	120	232	345	1,892
Tax on EBIT	0	0	-26	-51	-76	-416
NOPLAT (+)	-46	18	94	181	269	1,476
Depreciation & amortization (+)	19	19	19	19	19	54
Capital expenditure (-)	-2	-2	-2	-2	-2	-8
Change in working capital (- or +)	-18	-16	-25	-33	-33	-92
Free Cash Flow to the Firm	-48	19	85	165	253	1,429
NPV of FCF	-43	15	59	101	138	573

WACC calculation	
Debt ratio	1.0%
Cost of debt (after tax)	3.8%
Risk free rate	4.0%
Beta	1.5
Market risk premium	6.0%
Cost of equity	13.0%
WACC	12.9%

Valuation, NOKm	
Net debt	-256
Minority interest	0
Proceeds from option exec.	36
NPV cash flow	
2023-2031E	844
2032E-	1,270
Equity value	2,405
Value per share, NOK	87.21

Assumptions	
Tax rate	22%
LT growth	2.5%
# shares, m*	27.106
Options program	
Proceeds, NOKm	35.7
New shares, m	0.474
Total # shares, m	27.580
* Ex. treasury shares and before remaining option execution	

Sum-of-the-parts valuation of Photocure

	Value NOKm	Probability, %	Prob. adj. value NOKm	Value/sh
Hexvix/Cysview and other (no generics)	2,405	100%	2,405	87
Cevira	840	50/25%	333	12
Fair value of Photocure share				99
TP (fair value with 10% discount)				90
			<i>Upside</i>	<i>10%</i>

Key assumptions in our valuation of Cevira:

- 1m patient population in US/EU and average of 7-14m in China
- Peak market penetration at 9% in US/EU and 3% in China
- Pricing of USD 800/patient per year in US/EU and 1/3rd of that in China
- 2024 & 2026 launch in China & US/EU (first sales in 2025/2027 respectively)
- Peak sales at NOK 1.4bn in 2031
- Probabilities of success at 25% for US/EU and 50% for China
- Royalties at 15% of sales
- Milestones of USD 18m during 2020-2024 from Chinese studies and launch and USD 36m in 2026 from US/EU studies and launch are included; no revenue-related or second indication milestones are included in our model
- Risk-adjusted cash flows discounted at 15% WACC

Estimate changes (NOKm)	4Q22		1Q23E		2023E		2024E		2025E	
	Act.	Est.	New	Old	New	Old	New	Old	New	Old
Net sales	95	112	103	116	469	525	558	683	694	874
EBITDA adj.	-26	3	-7	5	8	68	72	227	174	354
<i>EBITDA adj. Margin</i>	-28%	3%	-6%	4%	2%	13%	13%	33%	25%	41%
EBIT (adj)	-32	-3	-13	-1	-17	44	48	202	150	330
<i>EBIT (adj) margin</i>	-34%	-3%	-12%	-1%	-4%	8%	9%	30%	22%	38%
Non-recurring items	9	-	-	-	-	-	-	-	-	-
EBIT	-23	-3	-13	-1	-17	44	48	202	150	330
Pre-tax profit	-29	-9	-18	-7	-37	20	28	181	132	312
Tax	7	2	4	2	8	-4	-6	-40	-29	-69
Tax rate	25%	22%	22%	22%	22%	22%	22%	22%	22%	22%
Profit after tax	-21	-7	-14	-5	-29	16	22	141	103	243

* Cevira milestones excluded post 2022.

Profit & Loss (NOKm)	2018	2019	2020	2021	2022	2023E	2024E	2025E
Operating revenues	177	216	256	354	374	469	558	694
Operating expenses	-192	-223	-260	-342	-418	-461	-486	-520
EBITDA	-15	-6	-4	12	-43	8	72	174
Depreciation & Amortisation	-13	-16	-19	-24	-24	-24	-24	-24
EBIT (adj)	-29	-22	-23	-12	-68	-17	48	150
Non-recurring items	-9	65	-13	6	19	-	-	-
EBIT	-38	43	-36	-6	-49	-17	48	150
Net interest & other financial effects	1	3	3	-26	-22	-21	-20	-18
Pre-tax profit	-37	46	-33	-32	-71	-37	28	132
Minority interests/Extraordinary items	-	-	-	-	-	-	-	-
Taxes	0	-14	11	1	-1	8	-6	-29
Profit after tax	-37	32	-22	-31	-72	-29	22	103
EPS rep. (NOK)	-1.69	1.46	-0.84	-1.15	-2.65	-1.08	0.79	3.79
EPS adj. (NOK)	-0.97	-0.68	-0.59	-1.06	-2.58	-1.08	0.79	3.79
Margins								
Operating margin	-16%	-10%	-9%	-3%	-18%	-4%	9%	22%
ROE	-11%	-8%	-6%	-8%	-21%	-10%	7%	28%
ROCE	-14%	-11%	-5%	-2%	-10%	-3%	8%	23%
Tax rate	0%	31%	33%	2%	-1%	22%	22%	22%
Growth rates (YoY)								
Operating revenues	18%	23%	18%	38%	6%	25%	19%	24%
EBIT (adj)	nm	nm	nm	nm	nm	nm	nm	215%
EPS (adj)	nm	nm	nm	nm	nm	nm	nm	377%

* Cevira milestones excluded post 2022.

Balance sheet (NOKm)	2018	2019	2020	2021	2022	2023E	2024E	2025E
Goodwill	-	-	144	144	144	144	144	144
Deferred tax asset	52	38	50	53	55	63	57	28
Licences, property, plant & equipment	25	14	166	151	136	119	102	86
Other intangible assets	1	18	4	29	26	26	26	26
Non-current Assets	78	70	364	376	361	353	330	284
Inventory	19	16	30	28	27	33	38	46
Receivables	20	25	43	48	47	59	70	87
Other current assets	8	20	5	15	16	16	16	16
Cash and cash equivalents	107	125	335	323	268	212	235	352
Current Assets	153	187	412	413	358	321	360	502
Total assets	231	257	776	790	719	673	690	786
Shareholders equity	176	209	508	503	463	434	455	558
Non-controlling interests	-	-	-	-	-	-	-	-
Total equity	176	209	508	503	463	434	455	558
Deferred tax liability	-	-	-	-	-	-	-	-
Long-term interest bearing debt	-	-	38	13	-	-	-	-
Other long-term liabilities	2	10	151	173	167	163	158	152
Non-current liabilities	2	10	188	185	167	163	158	152
Current interest bearing debt	-	-	13	25	13	-	-	-
Trade payables	10	5	23	24	21	21	21	21
Other current liabilities	42	34	44	53	55	55	55	55
Current liabilities	52	39	80	102	89	77	77	77
Total liabilities	55	49	268	287	256	240	234	228
Total liabilities and equity	231	257	776	790	719	673	690	786
Working capital	29	36	49	52	52	71	87	112
Net IB debt	-107	-125	-285	-285	-256	-212	-235	-352
Capital employed	179	219	696	688	630	596	613	710
Net IB debt / equity	-61%	-60%	-56%	-57%	-55%	-49%	-52%	-63%
Equity / total assets	76%	81%	65%	64%	64%	64%	66%	71%

Cash flow (NOKm)	2018	2019	2020	2021	2022	2023E	2024E	2025E
Pretax profit	-37	46	-33	-32	-71	-37	28	132
Depreciation and amortisation	13	16	19	24	24	24	24	24
Share-based compensation	0	-	8	13	22	-	-	-
Net interest	-1	-2	4	22	24	21	20	18
Changes in working capital	-0	-7	-6	-3	-0	-18	-16	-25
Other operational items	1	-32	23	-12	-1	-	-	-
Cash flow from operations	-24	21	16	12	-2	-11	56	149
Capital expenditures on tangibles	-2	-1	-1	-11	-4	-1	-1	-1
Capital expenditures on intangibles	-1	-0	-167	-	-	-1	-1	-1
Other/Interest income	1	2	2	2	2	5	4	5
Cash flow from investments	-1	1	-167	-10	-1	3	2	4
Cash flow from financing activities	3	-3	361	-14	-51	-48	-35	-35
Change in cash	-23	18	210	-12	-55	-56	23	117

* Cevira milestones excluded.

Share data	2018	2019	2020	2021	2022	2023E	2024E	2025E
Shares outstanding, year end (mill.)	21.779	21.796	26.718	26.974	27.121	27.121	27.121	27.121
Share price, year end (NOK)	48.00	89.50	106.60	102.70	106.80	81.50	81.50	81.50
Market cap (NOKm)	1,045	1,951	2,848	2,770	2,897	2,210	2,210	2,210
Enterprise value (NOKm)	939	1,825	2,563	2,485	2,641	1,998	1,975	1,858
EPS rep. (NOK)	-1.69	1.46	-0.84	-1.15	-2.65	-1.08	0.79	3.79
EPS adj. (NOK)	-0.97	-0.68	-0.59	-1.06	-2.58	-1.08	0.79	3.79
DPS. (NOK)	-	-	-	-	-	-	-	-

Valuation	2018	2019	2020	2021	2022	2023E	2024E	2025E
EV/Sales	5.4	8.5	10.0	7.0	7.1	4.3	3.5	2.7
EV/EBITDA	neg	neg	neg	>100	neg	>100	27.5	10.7
EV/EBIT (adj)	neg	neg	neg	neg	neg	neg	41.5	12.4
P/E (adj)	neg	neg	neg	neg	neg	neg	>100	21.5
P/B (excl. goodwill)	5.9	9.4	7.8	7.7	9.1	7.6	7.1	5.3

Growth (YoY)	2018	2019	2020	2021	2022	2023E	2024E	2025E
Revenues	18%	23%	18%	38%	6%	25%	19%	24%
EBITDA	nm	nm	nm	nm	nm	nm	855%	142%
EBIT (adj)	nm	nm	nm	nm	nm	nm	nm	215%
Pre-tax profit (rep)	nm	nm	nm	nm	nm	nm	nm	377%
Net profit (rep)	nm	nm	nm	nm	nm	nm	nm	377%
EPS (rep)	nm	nm	nm	nm	nm	nm	nm	377%
EPS (adj)	nm	nm	nm	nm	nm	nm	nm	377%

Margins	2018	2019	2020	2021	2022	2023E	2024E	2025E
EBITDA	-9 %	-3 %	-2 %	3 %	-12 %	2 %	13 %	25 %
EBIT (adj)	-16 %	-10 %	-9 %	-3 %	-18 %	-4 %	9 %	22 %
Pre-tax profit	-21 %	21 %	-13 %	-9 %	-19 %	-8 %	5 %	19 %
Net profit	-21 %	15 %	-9 %	-9 %	-19 %	-6 %	4 %	15 %

Profitability	2018	2019	2020	2021	2022	2023E	2024E	2025E
ROE	-10.7 %	-7.8 %	-5.5 %	-7.9 %	-20.7 %	-9.6 %	7.2 %	28.4 %
ROCE	-14.2 %	-11.3 %	-5.1 %	-1.8 %	-10.3 %	-2.7 %	7.9 %	22.6 %
Dividend yield	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %

Recommendation, valuation, risk and sources

Recommendation and target price

Recommendation history for Photocure's share during the last 12 months:

Date	Recommendation	Target price (NOK)
28/02/2023	Hold	90
16/02/2023	Hold	120
07/11/2022	Hold	110
27/10/2022	Buy	120
18/08/2022	Buy	120
03/08/2022	Buy	120
20/05/2022	Buy	140
04/05/2022	Buy	140
28/02/2022	Buy	140

Valuation

To arrive at our share price target, we have used the DCF model for the existing business of Hexvix/Cysview and added the risk-adjusted discounted cash flows from the Cevira out-licensing deal. A discount to the resulting value is added due to long-term nature/uncertainty of the valuation.

Risks

The main risks to our target price on Photocure are the following:

- **Failure for our key assumptions to materialize.** These include estimates for Hexvix/Cysview (continued strong growth in the US, success in EU after taking over from Ipsen, entering new (Canada and Australia/New Zealand) markets and successful label extension as well as surveillance market penetration).
- **Regulatory risk** – authorities in the US, Europe and elsewhere may decline to approve drugs even if the drug succeeds in clinical trials as designed by the company. In addition, reimbursement schemes change over time posing a risk to sales potential of the company's products.
- **FX movements** – large part of company's revenues is in or is dependent on USD and EUR, while costs are mostly in NOK and USD. Thus, changes in foreign exchange rates have a significant impact on our valuation.
- **Clinical development risk.** Large part of our valuation is comprised of Cevira. The value now depends on Photocure's partner's ability to bring the product through clinical trials, get it approved and market it well. Failure to do so, would impact our valuation significantly.

Sources

The sources used in the preparation of this report were: Photocure, Oslo Stock Exchange, Infront and Bloomberg.

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Norne Securities' general recommendations – Buy, Hold and Sell – are based on the expected absolute return on the financial instrument within the next 12 months, which equals to an upside to the target price, in combination with a risk profile. The target price represents the price level which the analyst expects the financial instrument to trade at within the coming 12 months. The table below shows the ranges of returns under different risk levels, based on which the recommendation is being determined:

Risk	Total return next 12 months (upside to target price)		
	Buy	Hold	Sell
Low	> 10%	2% - 10%	< 2%
Medium	> 15%	3% - 15%	< 3%
High	> 25%	5% - 25%	< 5%

Our risk assessments range from “high risk” to “medium risk” and “low risk” and are based on a subjective assessment of the following factors: 1) volatility in the share price, 2) liquidity in the share, 3) strength of the balance sheet, 4) absolute earnings level and trend and 5) estimate risk.

Share prices used in the report are as of market close on the last trading day if the report is being published before the stock market opening, or market price within 15 min. before the publication if the report is published during the trading hours of the Oslo Stock Exchange.

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Target prices may be based on one or several valuation methods, for instance, the discounted cash flow (DCF) analysis or applying “fair” pricing multiple(s) based on historical valuation or peer pricing level. Target price may not necessarily equal to the “fair value” of the financial instrument – certain discount or premium is possible due to various reasons, depending on the analyst’s view of what the price may be within the 12 months period. Norne Securities plans to update the recommendation based on the following events: the target price is achieved; new accounting figures are released; any significant news on the company or its industry is announced.

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POTENTIAL CONFLICTS OF INTEREST

Norne Securities AS is a market maker in the shares of Photocure.

This report has been presented to the issuer before dissemination for a check of factual information. Amendments of the report have been made following this.

Share holdings of Norne employees in Photocure:

Responsible analyst(s)	0
All Norne analysts	20
Other Norne employees	0
Norne Securities AS	0

The overview of share holdings is updated continuously. A list of total share holdings of the Norne Securities' employees and the date of last overview can be found on [Compliance | Norne Securities](#). Shareholdings that Norne Securities AS owns as a result of own-account trading that is part of its investment services operations (such as market making) are not included in the table above.

Distribution of Norne Securities' recommendations during three months up till December 31, 2022:

	Buy	Hold	Sell
Total	61	46	6
% of total	54%	41%	5%
Corporate clients*	28	31	2
% of corporate clients*	46%	51%	3%

* Includes publicly disclosed not immaterial investment banking services or issues of financial instruments where Norne Securities AS has been lead manager or co-lead manager, and market making clients during the 12 months prior to the overview date.

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