

# Orexigen Therapeutics

Financial update

## Contrave comeback

Pharma &amp; biotech

Orexigen's decision to shift its US marketing focus from healthcare providers to consumers appears to be paying dividends as there has been a significant rebound in Contrave prescriptions since the launch of the patient-centric campaign. Outside of the US, progress continues as the product has launched in 13 countries, with another 10 expected by the end of the year, including Italy, where Orexigen just signed a local commercial and distribution partner.

19 April 2017

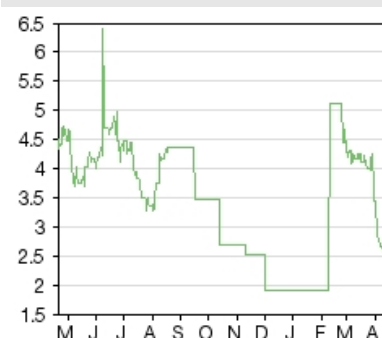
**Price** **US\$2.82**  
**Market cap** **US\$43m**

Net cash (\$m), including restricted, at 31 December 2016	28
Shares in issue	15.2m
Free float	64.8%
Code	OREX
Primary exchange	NASDAQ
Secondary exchange	N/A

Year end	Revenue (\$m)	PBT* (\$m)	EPS* (\$)	DPS (\$)	P/E (x)	Yield (%)
12/15	24.5	(67.3)	(5.24)	0.0	N/A	N/A
12/16	33.7	(138.1)	(9.73)	0.0	N/A	N/A
12/17e	85.8	(132.0)	(8.55)	0.0	N/A	N/A
12/18e	151.8	(81.1)	(5.14)	0.0	N/A	N/A

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

### Share price performance



%	1m	3m	12m
Abs	(31.2)	(19.0)	(41.1)
Rel (local)	(30.2)	(21.4)	(47.3)
52-week high/low	US\$6.4	US\$1.7	

## Consumer campaign drives growth

A shift from Takeda's healthcare provider-focused marketing to a campaign focused on consumers (although with continued detailing of high prescribing physicians) has yielded a dramatic increase in prescriptions. Orexigen is now guiding for projected total prescription share of Contrave in the US obesity market to be between 7.8-8.5% in 2017, up from 7-8% previously.

## Gross-to-net deductions continue to decrease

Gross-to-net deductions represented 58% of sales in Q4, down from 64% in Q3 and 67% in Q2, due to changes in Orexigen's savings card program and a greater mix of prescriptions paid for by commercial payers. As coverage continues to improve, we expect this discount to approach 50% in 2018/19.

## International launches progress

Contrave, which is known as Mysimba in most international markets, has now launched in 13 countries, including South Korea, Spain and Poland. Launches in the UK, Ireland, Cyprus and Greece are expected in Q217. Also, due to a recently signed commercial and distribution agreement with Bruno Farmaceutici, a launch in Italy is expected in Q417 (as well as five additional countries through other partners).

## Valuation

We are increasing our valuation from \$106m (\$7.25/share) to \$193m (\$12.70/share), mainly due to increasing our US sales estimates, rolling forward our forecasts, slightly lower R&D spending assumptions and the fact that some large expenses are behind it. This was mitigated by increased SG&A spending assumptions in the longer term, lower short-term OUS revenue expectations as well as lower net cash. As our overall operating spending assumptions have increased, our estimate for Orexigen's financing requirement is now \$90m through to 2020 (previously \$70m).

### Business description

Orexigen Therapeutics is a biopharmaceutical company focusing on obesity treatments. It recently reacquired the rights to sell its sole product, weight management treatment Contrave, in the US from its previous partner, Takeda. Contrave was launched in the US in October 2014 and approved in the EU in March 2015 under the trade name Mysimba.

### Next events

Launches in 10 additional countries 2017

### Analysts

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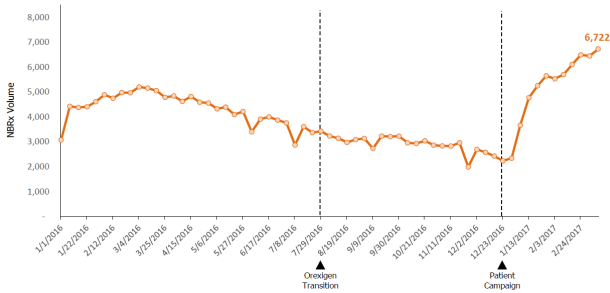
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## Contrave consumer campaign conquers

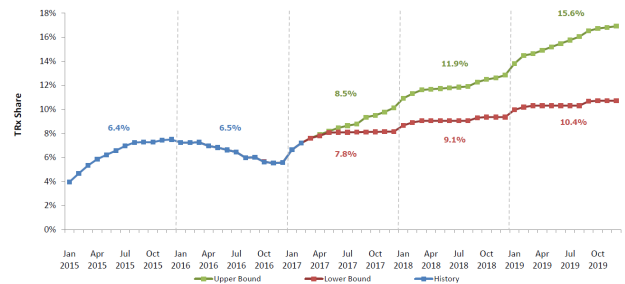
Since the beginning of its direct-to-consumer (DTC) campaign there has been a significant increase in prescriptions to people new to Contrave (see Exhibit 1) and a discernable rebound in its overall share of the US obesity market (see Exhibit 2) according to IMS prescription data provided by the company.

**Exhibit 1: New-to-brand prescriptions (NBRx)**



Source: Orexigen, IMS

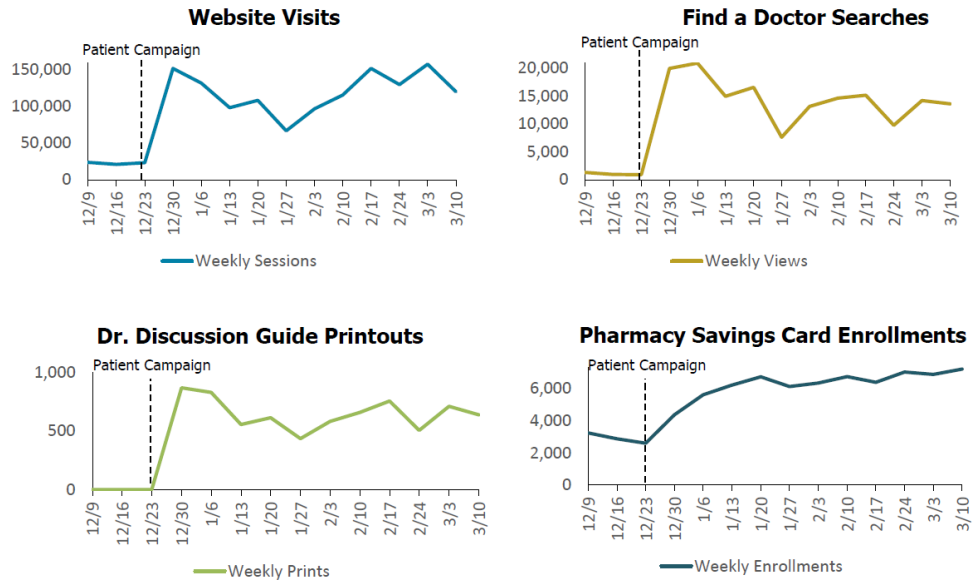
**Exhibit 2: Contrave share of total US obesity market**



Source: Orexigen, IMS

This DTC focus is diametrically opposed to the marketing strategy that Takeda employed while it was in charge with Contrave marketing in the US. Outside the sales expense from the sales representatives, Takeda spent 100% of its marketing budget on marketing to healthcare providers and none on consumers. Unfortunately, when doctors see a patient is overweight they will simply note and mention the patient should lose weight while not discussing therapeutic options, often due to lack of time. The DTC focus increases the chance that this discussion will be had, as patients will bring it up themselves. Other than prescriptions, other metrics, such as find a doctor searches and website visits, demonstrate the success of the shift to consumers (see Exhibit 3).

**Exhibit 3: Patient activation metrics**



Source: Orexigen, Google Analytics, McKesson

Besides increased Contrave prescriptions, Orexigen is benefiting from increased net revenue per prescription as its gross-to-net deductions are decreasing due to changes in its savings card program and a greater mix of prescriptions paid for by commercial payers. As the gross-to-net discount for Contrave as a whole has improved to 58% (down sequentially from 64% in Q3 and 67% in Q2), for every \$1 in the wholesale acquisition cost (WAC), the company realizes \$0.42, up

16.7% from Q3 and 27% from Q2. As coverage continues to improve, we expect this discount to approach 50% in 2018/19.

## International launches continue

Contrave, which is known as Mysimba in most international markets, has now launched in 13 countries (see Exhibit 4), including South Korea, Spain and Poland. Launches in the UK, Ireland, Cyprus and Greece are expected in Q217. Also, due to a recently signed commercial and distribution agreement with Bruno Farmaceutici, a launch in Italy is expected in Q417 (as well as Serbia by Valeant and certain Middle Eastern countries by Biologix FZCO). Orexigen's goal is to sign additional deals covering 10-20 countries in H117.

Exhibit 4: Upcoming ex-US launches			
Country	Partner	Launch date	Notes
South Korea	Kwangdong	Q216	
Czech Republic	Valeant	Q416	
Slovakia	Valeant	Q416	
Hungary	Valeant	Q416	
Poland	Valeant	Q416	
Romania	Valeant	Q416	
Spain	ROVI	Q117	
Bulgaria	Valeant	Q117	
Estonia	Valeant	Q117	
Lithuania	Valeant	Q117	
Latvia	Valeant	Q117	
Croatia	Valeant	Q117	
Slovenia	Valeant	Q117	
Greece	Valeant	Q217e	
Cyprus	Valeant	Q217e	
UK	Consilient Health	Q217e	
Ireland	Consilient Health	Q217e	
Italy	Bruno	Q417e	
Serbia	Valeant	Q417e	
Saudi Arabia	Biologix FZCO	Q417e	Regulatory submission expected Q217
Kuwait	Biologix FZCO	Q417e	Regulatory submission expected Q217
Lebanon	Biologix FZCO	Q417e	Regulatory submission expected Q217
UAE	Biologix FZCO	Q417e	Regulatory submission expected Q217
Canada	Valeant	2018e	Regulatory submission Q117
Australia	Valeant	2018e	Regulatory submission expected Q217
Turkey	Valeant	2018e	Regulatory submission expected Q2/Q3 2017
South Africa	Valeant	2018e	Regulatory submission expected Q317

Source: Orexigen

## Valuation

We are increasing our valuation from \$106m (\$7.25/share) to \$193m (\$12.70/share), mainly due to increasing our US sales estimates due to a strong rebound in Contrave prescriptions (our peak sales estimates have increased from \$277m to \$329m), rolling forward our forecasts, slightly lower R&D spending assumptions and the fact that some large expenses are behind it. This was mitigated by increased SG&A spending assumptions in the longer term, lower short-term OUS revenue expectations as well as lower net cash.

### Exhibit 5: Orexigen valuation

Product	Launch	Peak sales (\$m)	Royalty rate	NPV (\$m)	rNPV/share (\$)
Contrave US	Oct-14	329	100%	1,525	100.12
Contrave W. Europe	2016	118	30%	184	12.12
Contrave C. and E. Europe	2016	27	37.5%	46	3.03
Contrave S. Korea	2016	15	37.5%	21	1.38
Contrave ROW	2017	15	37.5%	24	1.60
PV costs inc taxes				(1,635)	(107.37)
Net cash, including restricted (as of 31 December 2016)				28	1.83
<b>Overall valuation (per share based on 15.2m shares outstanding)</b>				<b>193</b>	<b>12.70</b>

Source: Edison Investment Research

## Financials

For Q416, Orexigen reported revenue of \$13.9m, up from \$7.0m in Q316, which was a quarter in which Takeda sold Contrave for one month and Orexigen the other two. Total operating expenses were \$48.7m and it had a net loss of \$24.6m. It exited the quarter with \$194.0m in cash, restricted cash and marketable securities and \$166.2m in debt (down from \$200.9m in debt in Q316 due to an open-market purchase and retirement of approximately \$35m of its debt). The restricted cash is associated with the convertible senior secured notes due in 2020, which require the company to hold \$90m in restricted cash until the end of Q117 and \$40m until the end of Q217.

We have increased our US revenue assumptions for 2017 and beyond but also reduced our 2017 OUS revenue expectation due to conservative commentary from the company on its quarterly conference call. Our revenue expectations for 2017 have therefore been reduced from \$87.3m to \$85.8m. We have also reduced our 2017 R&D spending assumption from \$47.2m to \$38.0m due to lower than expected R&D spending in 2016. Finally, we have increased our SG&A expectations from \$119.9m to \$157.3m due to the higher than expected run rate in Q416. As our overall operating spending assumptions have increased our financing requirement is now \$90m through 2020 (previously \$70m) and we continue to expect profitability in 2021. The company has recently announced a \$20m at-the-market offering facility through Cantor Fitzgerald and may use that in the near future to raise equity capital.

**Exhibit 6: Financial summary**

	\$000s	2012	2013	2014	2015	2016	2017e	2018e
Year end 31 December		US GAAP	US GAAP	US GAAP	US GAAP	US GAAP	US GAAP	US GAAP
<b>PROFIT &amp; LOSS</b>								
Revenue		3,428	3,428	55,521	24,459	33,709	85,768	151,843
Cost of Sales		0	0	0	0	(7,995)	(18,556)	(27,733)
Gross Profit		3,428	3,428	55,521	24,459	25,714	67,212	124,110
Research and development		(73,680)	(56,748)	(57,412)	(40,750)	(38,023)	(38,023)	(41,825)
Selling, general & administrative		(19,987)	(23,878)	(28,639)	(43,762)	(118,583)	(157,268)	(158,840)
EBITDA		(90,552)	(77,292)	(30,669)	(60,276)	(134,627)	(128,392)	(76,876)
Operating Profit (before GW and except.)		(90,239)	(77,198)	(30,530)	(60,053)	(130,892)	(128,079)	(76,556)
Intangible Amortisation		0	0	0	0	(3,307)	(5,769)	(5,769)
Exceptionals/Other		0	0	0	0	77,229	0	0
Operating Profit		(90,239)	(77,198)	(30,530)	(60,053)	(56,970)	(133,848)	(82,325)
Net Interest		145	(473)	(6,995)	(7,219)	(7,228)	(3,948)	(4,498)
Other (includes change in fair value of warrants)		0	0	0	(39)	39,807	0	0
Profit Before Tax (norm)		(90,094)	(77,671)	(37,525)	(67,272)	(138,120)	(132,026)	(81,053)
Profit Before Tax (FRS 3)		(90,094)	(77,671)	(37,525)	(67,311)	(24,391)	(137,795)	(86,822)
Tax		0	0	0	(1,376)	(133)	0	0
Deferred tax		0	0	0	0	0	0	0
Profit After Tax (norm)		(90,094)	(77,671)	(37,525)	(68,648)	(138,253)	(132,026)	(81,053)
Profit After Tax (FRS 3)		(90,094)	(77,671)	(37,525)	(68,687)	(24,524)	(137,795)	(86,822)
Average Number of Shares Outstanding (m)		70.7	96.5	11.8	13.1	14.6	15.4	15.8
EPS - normalised fully diluted (\$)		(1.27)	(0.80)	(3.17)	(5.24)	(9.73)	(8.55)	(5.14)
EPS - FRS 3 (\$)		(1.27)	(0.80)	(3.17)	(5.24)	(9.73)	(8.55)	(5.14)
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET</b>								
Fixed Assets		260	1,839	1,655	2,694	79,940	89,196	83,453
Intangible Assets		0	0	0	0	76,061	85,292	79,523
Tangible Assets		83	630	857	1,284	1,044	1,069	1,095
Other		177	1,209	798	1,410	2,835	2,835	2,835
Current Assets		138,894	178,282	211,326	233,895	224,461	112,510	66,930
Stocks		0	0	1,198	10,802	23,193	23,193	23,193
Debtors		0	0	2,571	6,828	1,102	1,102	1,102
Cash		137,403	176,996	205,537	214,011	103,993	82,047	36,467
Other		1,491	1,286	2,020	2,254	96,173	6,168	6,168
Current Liabilities		(25,114)	(22,853)	(29,714)	(32,241)	(65,360)	(65,360)	(65,360)
Creditors		(25,114)	(22,853)	(29,714)	(32,241)	(65,360)	(65,360)	(65,360)
Short term borrowings		0	0	0	0	0	0	0
Long Term Liabilities		(38,571)	(115,406)	(160,923)	(170,970)	(178,842)	(198,277)	(217,747)
Long term borrowings		0	(80,031)	(83,908)	(88,129)	(166,179)	(186,179)	(206,179)
Other long term liabilities		(38,571)	(35,375)	(77,015)	(82,841)	(12,663)	(12,098)	(11,568)
Net Assets		75,469	41,862	22,344	33,378	60,199	(61,931)	(132,725)
<b>CASH FLOW</b>								
Operating Cash Flow		(68,342)	(70,817)	26,828	(54,473)	(109,713)	(116,613)	(65,421)
Net Interest		0	0	(3,119)	0	0	0	0
Tax		0	0	0	0	0	0	0
Capex		0	(640)	(246)	(538)	(330)	(338)	(347)
Acquisitions/disposals		0	0	0	0	(63,504)	(15,000)	0
Financing		58,270	1,337	2,734	64,259	188	0	0
Dividends		0	0	0	0	0	0	0
Other		0	29,682	(1,533)	(3,843)	(15,424)	90,005	188
Net Cash Flow		(10,072)	(40,438)	24,664	5,405	(188,783)	(41,946)	(65,580)
Opening net debt/(cash)*		(147,593)	(137,403)	(96,965)	(121,629)	(125,882)	62,186	104,132
HP finance leases initiated		0	0	0	0	0	0	0
Exchange rate movements		0	0	0	29	715	0	0
Other		(118)	0	0	(1,181)	0	0	(0)
Closing net debt/(cash)*		(137,403)	(96,965)	(121,629)	(125,882)	62,186	104,132	169,712

Source: Orexigen Therapeutics accounts, Edison Investment Research. Note: \*Not including restricted cash, which is shown in 'other'.

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