

Nuvo Pharmaceuticals Inc. (TSX:NRI, C\$0.48)

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Bloom Burton Securities Inc.

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 Rating: BUY (was HOLD)
 Risk: Speculative
 12 month Price Target: \$2.50

 Price: \$0.48
 Implied Return: 420.8%
 Fiscal Year End: 31-Dec
 52 Week Range: \$0.28 - \$2.99
 Shares Outstanding (MM): 11.4
 Market Cap. (MM): 5.5
 Float (MM Shares): 10.8
 Avg. Daily Volume (MM): 0.012

(C\$MM, except EPS)	2018A	2019E	2020E	2021E
Total revenues (IFRS)	\$20.0	\$66.1	\$71.7	\$77.6
Adjusted revenues*	\$20.5	\$73.2	\$71.9	\$77.9
(previous)	\$20.5	\$73.0	\$67.3	\$76.9
Adjusted EBITDA**	(\$3.1)	\$26.1	\$28.2	\$33.0
(previous)	(\$3.1)	\$25.9	\$22.1	\$30.3
EPS (f.d.)	(\$0.54)	(\$1.12)	\$0.12	\$0.25
EV/adjusted EBITDA**	neg	5.4	5.0	4.3

	2019	1QA	2QA	3QA	4QE
Revenues	\$14.6	\$16.6	\$18.8	\$16.2	
Adjusted revenues*	\$17.1	\$19.1	\$18.9	\$18.1	
Adjusted EBITDA**	\$5.2	\$5.7	\$7.8	\$7.4	
EPS (f.d.)	(\$0.65)	(\$0.52)	\$0.10	(\$0.05)	

*incl amounts billed for existing contract assets
 **includes adjusted revenues; excludes non-cash items

Not Reddy for Generic Vimovo Just Yet.

Yesterday, Nuvo announced that the U.S. District Court for New Jersey denied a summary judgment request filed by Dr. Reddy's Laboratories (DRL; NSE:DRREDDY; unrated) related to an ongoing patent infringement suit involving two Orange Book patents for VIMOVO (8,858,996 and 9,161,920 - both expire May 31, 2022). As a result of the Court's decision, it seems likely to us that DRL will not launch a generic version of VIMOVO in the near term. Instead, it seems more likely that patent litigation will continue until a possible trial date in April 2021, or a settlement ahead of the trial.

Separately, Nuvo's U.S. partner for Pennsaid, Horizon Therapeutics (NASDAQ:HZNP; unrated), reported 3Q-2019 results last Wednesday including an 18% Y/Y drop in Pennsaid sales. While reasons for the drop were not discussed (and Horizon's net sales of Pennsaid tend to be volatile), it may be an early effect of Pennsaid landing on Express Scripts' Exclusion list for 2020 ([link](#)).

Impact - Net Positive

While the larger than expected drop in Pennsaid sales in 3Q-2019 has prompted us to conservatively forecast a more aggressive 25% decrease in scripts in 2020 (previously a 10% decrease), we now feel more confident that Nuvo will earn material VIMOVO royalties beyond 2019.

As a result, we are adding back \$7.5 MM of VIMOVO royalty to our 2020 forecast (\$10 MM @ 75% probability), and \$5 MM to our 2021 forecast (\$10 MM @ 50% probability).

The near term combined impact of the VIMOVO and Pennsaid changes is to add \$4.6 MM and \$1.0 MM to our adjusted revenue forecasts for 2020 and 2021, respectively, and \$6.1 MM and \$2.7 MM to our adjusted EBITDA forecasts in the same periods.

Longer term, the net impact of the changes is moderately negative as we continue to forecast no material VIMOVO royalties beyond 2021 (potential for upside if the 2021 patent trial outcome is positive), whereas the Pennsaid revisions impact our forecasts out to October 2027 when we expect that Pennsaid patent protection will fall away.

After making the above noted changes to our forecasts, our DCF valuation of NRI stock is \$2.60 per share (15% cost of equity, 10% long term cost of capital, 0% terminal growth), which we round down to \$2.50 - unchanged vs our prior target.

However, with increased confidence in a near term cash flow boost from VIMOVO, and >400% potential upside to our target price, we are upgrading NRI stock to BUY. Due to the large debt load carried by the company (~\$150 MM), however, we continue to view NRI investment risk as Speculative.

On the backdrop of more conservative U.S. Pennsaid forecasts, our downside DCF valuation for NRI stock is now \$1.75 per share if DRL launches a generic VIMOVO in the near term (which would be at risk, and likely without an exclusivity period - see: [link](#)). If DRL is held at bay until May 2022 (when the '996 and '920 VIMOVO patents expire), our DCF valuation would increase to \$3.00 per share.

Other potential catalysts for Nuvo include the signing of a U.S. commercial partner for Resultz, and the launch in India and potential approval of Pennsaid 2% in Europe, which are not included in our forecasts.



This report is priced as of last trading day close. All values in C\$ unless otherwise noted.



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Rating	Number	Percentage
BUY	14	78%
ACCUMULATE	1	5%
HOLD	3	17%
SELL	0	0%
Total	18	100%