



**Nuvo Pharmaceuticals Inc. (TSX:NRI, C\$0.74)**

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Bloom Burton Securities Inc.

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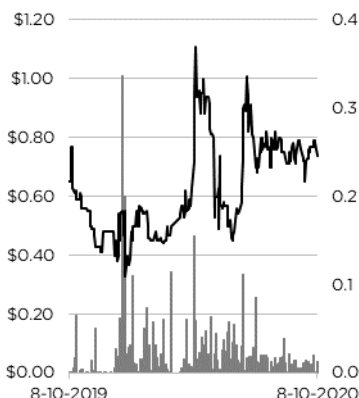
Rating: BUY  
Risk: Speculative  
12 month Price Target: \$2.30

Price: \$0.74  
Implied Return: 210.8%  
Fiscal Year End: 31-Dec  
52 Week Range: \$0.28 - \$1.20  
Shares Outstanding (MM): 11.4  
Net Debt (MM): \$123.3  
Market Cap. (MM): \$8.4  
Float (MM Shares): 9.0  
Avg. Daily Volume (MM): 0.011

(C\$MM, except EPS)	2019A	2020E	2021E	2022E
Total revenues (IFRS)	\$69.5	\$72.0	\$70.0	\$74.5
Adjusted revenues*	\$74.7	\$69.2	\$70.3	\$74.8
<i>previous</i>	\$74.7	\$67.7	nc	nc
Adjusted EBITDA**	\$27.2	\$25.3	\$26.7	\$29.2
<i>previous</i>	\$27.2	\$23.3	nc	nc
EPS (basic)	\$0.30	\$0.31	\$0.92	\$1.17
EV/adjusted EBITDA**	4.8	5.2	4.9	4.5

	2020	1QA	2QA	3QE	4QE
Revenues	\$24.4	\$15.5	\$16.4	\$15.7	
Adjusted revenues*	\$18.9	\$18.0	\$16.5	\$15.7	
Adjusted EBITDA**	\$8.0	\$7.6	\$5.1	\$4.6	
EPS (basic)	\$0.27	(\$0.17)	\$0.13	\$0.09	

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



**2Q-2020 Financial Results**

Yesterday, Nuvo reported 2Q-2020 financial results. Total revenues declined 6% Y/Y due mainly to Covid-19, but beat our forecast mainly on better than expected Blexten and Cambia sales despite the pandemic. Adjusted EBITDA beat was due to higher revenues/gross profit, lower G&A and recognition of a \$2.5 MM regulatory milestone payment. Excluding the milestone, adjusted EBITDA would have beat by \$0.9 MM.

C\$MM (except EPS)	2Q-2020	Bloom Burton Consensus	2Q-2019	1Q-2020
Total revenues	\$15.5	\$14.7	na	\$16.6
EBITDA (adjusted)	\$7.6	\$4.2	na	\$5.7

**Highlights**

Nuvo's total revenues of \$14.7 MM were down 6% Y/Y due mainly to Covid-19 which weighed on Nuvo's Canadian product business - Blexten and Cambia revenues were up Y/Y 14% to \$6.3 MM but likely would have been higher if not for inventory de-stocking during the second quarter (following pandemic-related stocking up in the first) - Blexten and Cambia prescriptions increased 34% and 11% Y/Y and market shares increased to all-time highs of 16.1% and 4.8%, respectively.

Revenues for Nuvo's other Canadian products were down 34% Y/Y to \$3.0 MM from \$4.5 MM due to inventory de-stocking in the second quarter, direct impact of shelter-in-place regulations on sales (field-based salesforce is still largely conducting virtual promotion), and maturity of the portfolio.

U.S. product sales (Pennsaid 2%) were down 26% to \$2.6 MM from \$3.5 MM a year ago, but beat our estimate: \$2.1 MM. U.S. license revenue (VIMOVO royalty) decreased to \$0.9 MM from \$2.5 MM, and is expected to decline further as a generic version of Vimovo was launched in the U.S. in Q1-2020 (there could be future upside to the outlook for VIMOVO if the generic, launched at risk, is later removed from the market pending further patent litigation (trial date expected mid-2021).

Along with current bright spots: Blexten and Cambia, Nuvo has several other potential near-term growth drivers:

- Canadian launch of Suvexx in September - will compete in the \$130 MM acute migraine market but targeted to more severe patients than Cambia;
- Resultz launch in Germany in 2H-2020 (was expected in 2Q-2020) with partner, Heumann (private) - Germany is the largest lice treatment market in Europe at 50 M euros;
- Launch of Pennsaid 2% with partner Gebro Pharma (private) in Switzerland in 4Q-2020. The Indian launch with partner Sayre Therapeutics (private) is now under review due to changing competitive environment;
- Potential approvals of line extensions of NeoVisc in Canada in 2H-2020 (was expected in 2Q-2020) and launch shortly thereafter;
- Potential approval of Pennsaid 2% in Austria, Greece, Italy and Portugal (markets where Pennsaid 1.5% has already been approved) in 2021 (was expected in 2020);
- In June 2020, filed for pediatric formulations of Blexten in Canada (decision expected in mid-2021);
- Finalize partnership for Resultz in the U.S. in 2H-2020 (Nuvo previously expected to finalize a partnership in time for 3Q-2020 lice season).



During 2Q-2020, Nuvo made loan principal repayments of US\$2.5 MM to Deerfield, with its remaining loans totaling US\$105 MM.

We have made upward revisions to our FY-2020 estimates based on the second quarter beat. However, due to several delays (most importantly, the delay in securing a U.S. partner for Resultz prior to the start of the 2020 lice season), we are not rolling the increases through to the out years (NRI may book some U.S. Resultz supply revenues in 2020 if a partner is secured and places a stocking order before the end of the year, but we do not expect royalty revenues will start until 2021). The impact of our changes is highlighted in the accompanying table (middle, left).

**Using a low 6.0x 2021E adjusted EBITDA multiple, and applying a 30% liquidity discount to the resulting value, we arrive at an equity valuation (net of debt) of \$2.30 per NRI share** - which infers >200% upside from current trading levels. We view this as an outsized potential return for a company that is generating \$3 MM to \$4 MM of cash flow from operations each quarter, with numerous potential drivers of growth on tap, and we are **maintaining our BUY rating** as a result. However, we re-iterate that NRI is a **highly speculative stock** - of the company's current enterprise value (C\$131.7 MM), \$123.3 MM is net debt and \$8.4 MM is equity value. With this kind of leverage, a slight miss on EBITDA can swing the equity value dramatically. The stock has already had a nice 160% lift from its 52-week low. Moving forward, to solidly move above the current range, we believe that numerous wins on the growth opportunity front will be necessary to give investors comfort that upside surprises are more likely than disappointments.



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**Accumulate** - Expected to outperform the sector average over the next 12 months or longer.

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ACCUMULATE	5	26%
HOLD	2	11%
SELL	0	0%
Total	19	100%