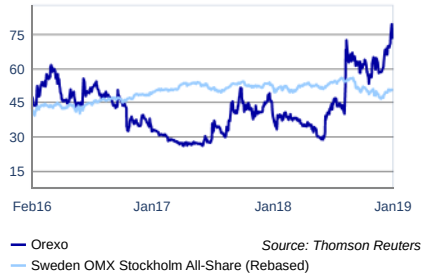
Orexo

Healthcare
Sweden

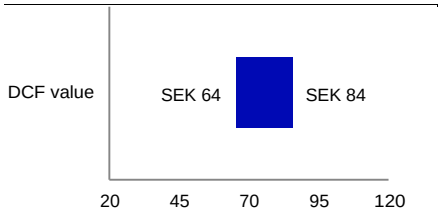
KEY DATA

Stock country	Sweden
Bloomberg	ORX SS
Reuters	ORX.ST
Share price (close)	SEK 73.40
Free Float	89%
Market cap. (bn)	EUR 0.25/SEK 2.58
Website	www.orexo.com
Next report date	02 May 2019

PERFORMANCE



VALUATION APPROACH



Source: Nordea estimates

ESTIMATE CHANGES

Year	2019E	2020E	2021E
Sales	-2%	-2%	-2%
EBIT (adj)	-8%	-1%	-1%

Source: Nordea estimates

Nordea Markets - Analysts
Hans Mähler
Director

Dan Johansson
Analyst

Improved operational leverage in 2019

Orexo posted a Q4 report with total revenue of SEK 227.1m, versus SEK 191m in the same period last year. This sales growth was driven solely by Zubsolv in the US, which reached revenue of SEK 166.7m, up by 21.3% y/y in local currency. We view the continued solid uptake for Zubsolv in the US as positive, but its total revenues missed our expectations by around 5%. We attribute the miss to higher-than-expected rebates and lower demand for Abstral. In the report, last year's opex outlook at around SEK 500m was reiterated for 2019, implying solid operating leverage.

Strong demand for Zubsolv US

Orexo's flagship product, Zubsolv, demonstrated strong uptake in the US, with growth of 21.3% y/y in local currency to SEK 166.7m. The company attributes the performance to increased demand of 22%, driven by improved market access. We view the continued strong US demand for Zubsolv as positive, but its sales still missed our expectations by ~5%, which we attribute to higher-than-expected rebates. Outside the US, royalties for Zubsolv were still dampened by the cancelled partnership agreement with Mundipharma and generated revenues of SEK 5.2m. Orexo regains the ex-US rights on 13 April and is currently exploring potential partnership agreements with other companies. The company aims to sign an agreement in 2019. Abstral revenues amounted to SEK 52.4m, versus SEK 55.4m in Q4 last year, missing our expectations by ~9%. Orexo attributes the decrease to lower sales in parts of EU and the US.

Opex higher than expected

EBIT came in at SEK 37.6m, corresponding to an EBIT margin of 16.6%, versus our estimate at SEK 63.3m. The miss was mainly driven by lower revenues and higher legal costs (SEK 26.4m) then expected. EBITDA excluding IP litigation costs was SEK 69.2m (SEK 42.8m including).

Outlook for 2019 and estimate revisions

In its report, Orexo maintained last year's opex outlook for around SEK 500m in 2019. Including other operating income and expenses, opex came in at SEK 516m during 2018, implying a solid margin improvement with continued sales growth. Sales are expected to be driven by increased volumes, despite increased competition from Suboxone Film generics. We derive a DCF-based fair value range of SEK 64-84, with potential upside of SEK 4-10 given a successful outcome in the ongoing litigation trial.

SUMMARY TABLE - KEY FIGURES

SEKm	2015	2016	2017	2018	2019E	2020E	2021E
Total revenue	646	706	644	783	870	883	996
EBITDA (adj)	-100	73	78	117	199	174	219
EBIT (adj)	-181	52	57	96	178	152	196
EBIT (adj) margin	-28.0%	7.3%	8.9%	12.2%	20.5%	17.2%	19.7%
EPS (adj)	-6.09	0.84	0.67	3.93	4.92	4.19	5.46
EPS (adj) growth	-252.1%	113.8%	-20.5%	487.8%	25.2%	-14.8%	30.2%
DPS (ord)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EV/Sales	3.8	2.0	2.2	2.3	2.4	2.2	1.7
EV/EBIT (adj)	n.m.	27.4	24.7	18.7	11.8	12.9	8.9
P/E (adj)	n.m.	44.7	61.6	15.0	14.9	17.5	13.4
P/BV	8.0	4.2	4.3	4.3	4.0	3.2	2.6
Dividend yield (ord)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF Yield bef acq & disp	-4.9%	5.0%	4.3%	11.7%	7.5%	6.3%	8.1%
Net debt	296	115	-9	-269	-462	-625	-834
Net debt/EBITDA	-3.0	1.6	-0.1	-2.3	-2.3	-3.6	-3.8
ROIC after tax	-20.7%	6.4%	8.1%	15.0%	29.1%	24.8%	31.8%

Source: Company data and Nordea estimates

Q4 and 2018 update

Orexo's Q4 report posted total revenues of SEK 227.1m, versus SEK 191m in the same period last year, and below our estimate of SEK 239m. Zubsolv US was the sole driver of growth, generating revenues of SEK 166.7m, up 21.3% y/y in local currency. We attribute the miss on top line compared to our estimates partly to higher rebates than expected and somewhat slower sales for Abstral. EBIT came in at SEK 37.6m versus SEK 30.1m in Q4 2017. Orexo maintained last year's opex outlook at around SEK 500m in 2019E, coming in at SEK 516m in 2018. The reiteration of the outlook for operational expenditure can be explained by the company expecting to increase revenues by leveraging its current operations.

Update on Q4 results and financials

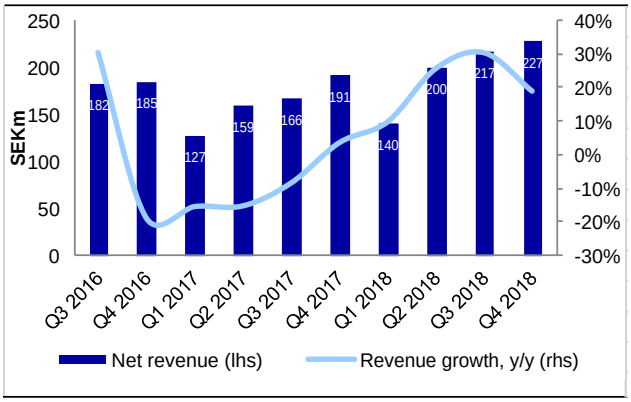
Zubsolv US was the sole driver of growth

Orexo's total revenues came in at SEK 227.1m in Q4 2018, versus SEK 191m in the same period last year, implying a y/y growth rate of ~19%. Zubsolv US was the sole driver of growth, generating revenues of SEK 166.7m, up ~32% in SEK and 21.3% y/y in local currency. The company attributes the performance to a 22% increase in demand, driven by improved market access from 1 January 2018. Whereas we view the continued strong demand as positive, Zubsolv US sales missed our estimates by ~5%, which we attribute to higher rebates than expected. Outside the US, royalties for Zubsolv were again dampened by the cancelled partnership agreement with Mundipharma. Orexo regains the ex-US rights on 13 April and is currently in discussions regarding potential partnership agreements with other companies. Abstral revenues amounted to SEK 52.4m, versus SEK 55.4m in the same quarter last year. Orexo attributes the decrease to lower sales in the EU as well as the US.

y/y growth peaked in Q3

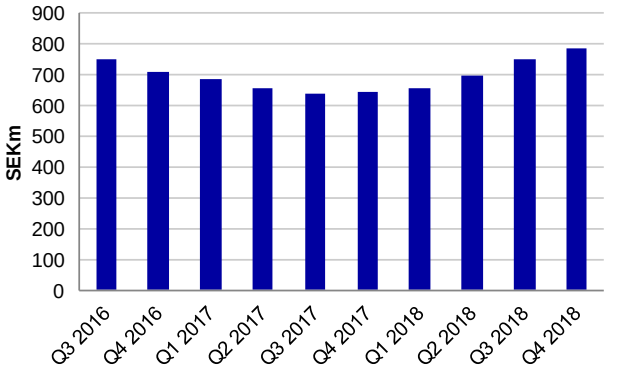
All in all, demand for Zubsolv US remains high but we note that the total revenue growth rate peaked in Q3. LTM revenue continues to progress steadily and reached SEK 783m in this quarter.

QUARTERLY REVENUE DEVELOPMENT



Source: Company data

LTM REVENUE DEVELOPMENT



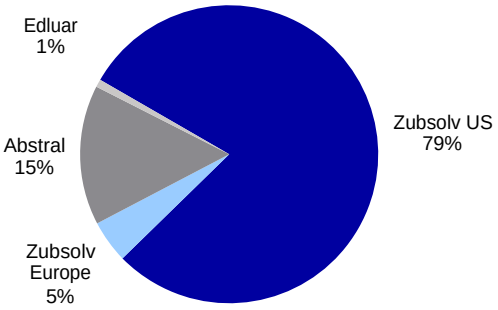
Source: Company data

US sales of Zubsolv remains Orexo's flagship product...

...but the revenue contribution could become more diversified

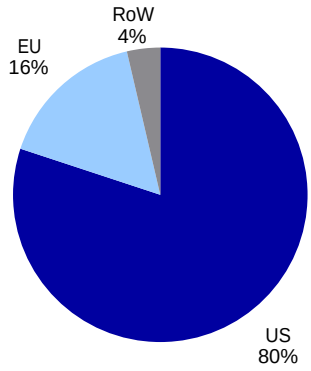
Zubsolv US remains Orexo's flagship product, representing 79% of total revenue for 2018, up by ~4 pp from last year. Consequently, the US is still Orexo's most important market. However, following the cancelled agreement with Mundipharma and the fact that Orexo is continuously evaluating new distribution partners for Zubsolv outside the US, as well as the company's ambition to broaden its product portfolio by adding new products, the revenue split could become more diversified in the coming years.

REVENUE SPLIT PER PRODUCT FOR 2018



Source: Company data

REVENUE SPLIT PER REGION FOR 2018

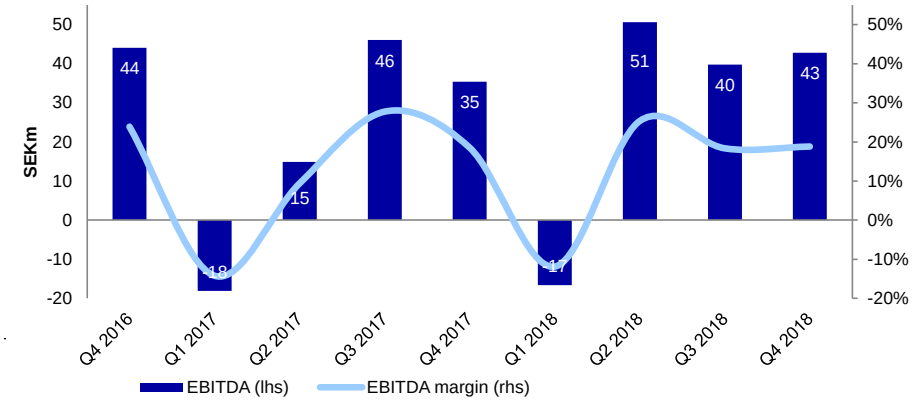


Source: Company data

EBITDA came in at SEK 42.8m, weighted by IP litigation costs of SEK 26.4m

EBITDA came in at SEK 42.8m in the quarter, weighted by IP litigation costs of SEK 26.4m, corresponding to an EBITDA margin of 18.8%. Excluding the litigation costs, EBITDA came in at SEK 69.2m. For 2018, EBITDA was SEK 116.6m, corresponding to an EBITDA margin of 14.9%.

QUARTERLY EBITDA AND EBITDA MARGIN, SEKm AND %



Source: Company data and Nordea estimates

Zubsolv prescriptions were flat q/q

Zubsolv prescriptions in the US

Zubsolv prescriptions were flat in Q4 2018 compared to the previous quarter. But the total number of prescriptions had begun declining during the end of the period and into the first few weeks of 2019. This can be attributed to the usual lower demand during the weeks surrounding Christmas. For 2019, we estimate an increase in prescription volume, supported by improved market access. For example, we expect more physicians and practitioners in the US to be eligible to treat a larger patient base in 2019, compared to the previous year. This is further elaborated on in the "Update on opioid addiction market" section. We also note that the market share for Indivior's long-acting BUP depot formulation, Sublocade, launched in the US in Q1 2018, remains low and is therefore not a threat to Zubsolv at this point.

ZUBSOLV US: RETAIL PRESCRIPTIONS, ROLLING FOUR WEEKS, WEEKLY AVERAGE, NUMBER

Source: Nordea and Symphony Health

Update on pipeline

Orexo has launched three drugs, two of which are commercialised through a partner, while Zubsolv is commercialised by the company itself. During December 2018, Orexo agreed with former partner Mundipharma to terminate the licensing agreement for Zubsolv outside the US, given a revised portfolio strategy by Mundipharma. Orexo aims to find a new partner to commercialise the drug outside the US and does not have to reimburse Mundipharma for milestone payments made earlier.

OREXO'S PRODUCT PIPELINE AS OF 30 JANUARY 2019

Product / Project		Exploratory	Preclinical	Phase I	Phase II	Phase III	Registration	Launched	Partners
Zubsolv US		Opioid Dependence							
Abstral		Breakthrough Cancer Pain							KYOWA KIRIN / SENTYNL
Edluar		Insomnia							Mylan
Zubsolv Europe & RoW		Opioid Dependence							
OX-MPI		Inflammation							Gesynta
New formulation technologies	OX382	Opioid Dependence and Pain							
	OX124	Naloxone Overdose Rescue Medication							
	OX125	Nalmefene Overdose Rescue Medication							
	OX338	Non Opioid Pain Reliever							

Commercial Products Development Projects

Source: Company data

Orexo reports five development projects, of which four are in the preclinical stage and one is in ph I of clinical studies. Most of Orexo's portfolio targets addiction and pain-related therapeutic areas, such as opioid dependence treatment, opioid overdose treatment, as well as opioid- and non-opioid-based pain relievers.

OX124, currently in ph I trials, is the most advanced project. On 7 January, Orexo reported positive results from a human pharmacokinetic study testing bioavailability

compared to the existing naloxone-based rescue medication, Narcan. The positive results imply an acceleration of Orexo's second rescue medication project, OX125. The company expects to file marketing approval applications with the FDA for OX124 and OX125 in 2021 and 2022, respectively.

OX382 is a buprenorphine-based swallowable version of Zubsolv that may be targeted at opioid dependence as well as pain. The development of OX382 is based on the insights gained from the results in the first clinical study performed in the beginning of 2018. A proof-of-concept in-vivo animal study will be initiated in early 2019; the study results are expected in H1 2019.

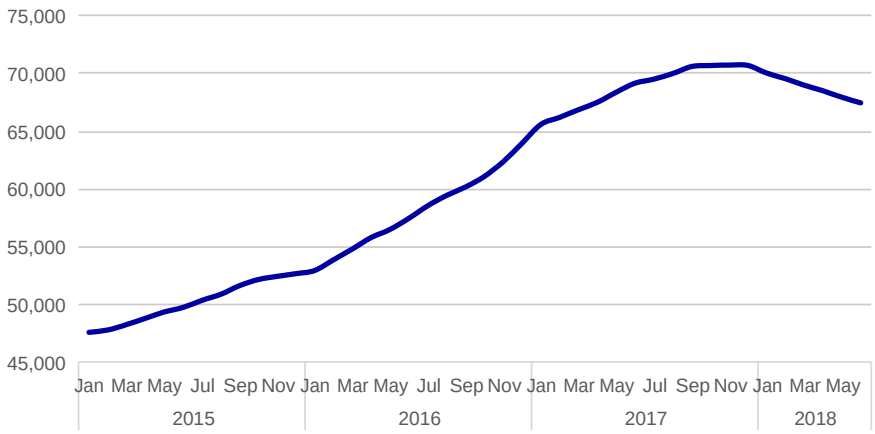
OX338 is based on a new sublingual tablet formulation of Ketrolac for acute treatment of moderate to severe pain. During the quarter, the formulation development continued and the results of an in-vivo animal PK-study supported advancement into PK-studies. These are expected to be initiated in 2019.

Update on the opioid addiction market

The number of drug overdose deaths in the US peaked in November 2017 and began to decline thereafter, according to latest data from the US Centers for Disease Control and Prevention (CDC). Most recently available death rates suggest an LTM level of 5% below peak as of June 2018. Still, dying from an opioid overdose is more likely than dying in a car accident.

US: DEATHS FROM DRUG OVERDOSES, ROLLING LTM

Number of overdose deaths starting to decline



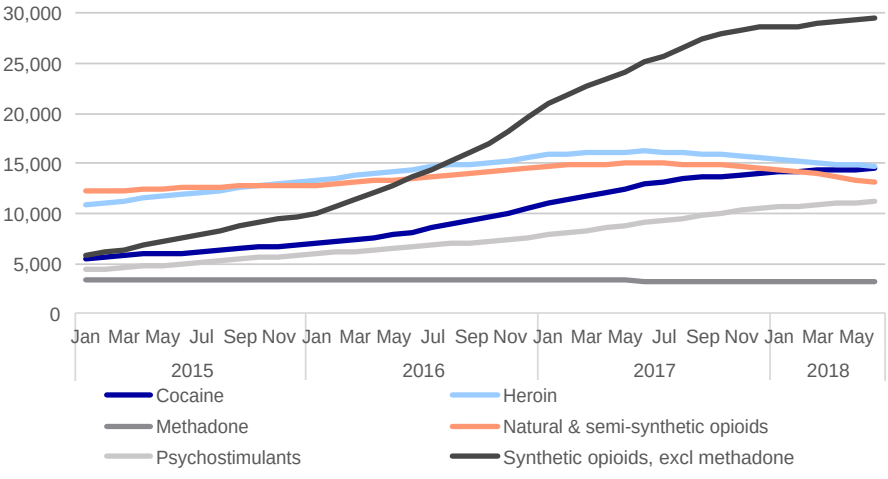
Source: Centers for Disease Control and Prevention (CDC)

The decline is mostly driven by lower rates of fatalities related to heroin and natural and semi-synthetic opioids (ie mostly prescription pain killers). Synthetic opioids (ie mostly fentanyl) are still the driving force behind the high number of overdose deaths.

US: DEATHS FROM DRUG OVERDOSES, ROLLING LTM, SPLIT BY DRUG

The decline is mainly due to natural and semi-synthetic opioids (mostly prescription pain killers) and heroin

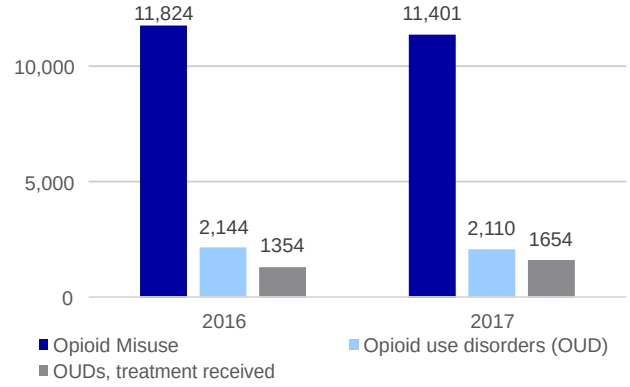
Synthetic opioids (mostly fentanyl) are still driving death rates



Source: Centers for Disease Control and Prevention (CDC)

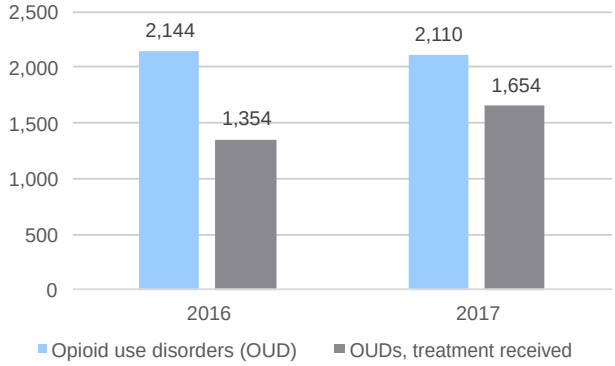
According to the latest National Survey on Drug Use and Health conducted by the US Substance Abuse and Mental Health Services Administration (SAMHSA), both the number of opioid misusers and the number of people with an opioid use disorder (OUD) has declined from 2016 to 2017. Yet, the number of misusers is still at a high level, suggesting that there is a high number of people at risk of developing a OUD. According to Clarion Healthcare, the number of treatment-eligible opioid misusers is likely to increase by 50%, to ~6 million in 2023 from ~4 million 2017. Even when looking at the more narrowly defined population of people with an OUD, there were still about 460,000 people who did not receive treatment in 2017. This "treatment gap" decreased substantially, by ~41%, from 2016 to 2017. It should be kept in mind though that not all treated OUD patients received medical assisted treatment (MAT), which is typically considered the more sustainable way of managing or treating an opioid addiction. Hence, there is still a big potential for increased MAT despite the narrowing treatment gap.

US: OPIOID MISUSERS, OUDs AND TREATED OPIOID MISUSERS IN THOUSANDs



Source: Substance Abuse and Mental Health Services Administration (SAMHSA)

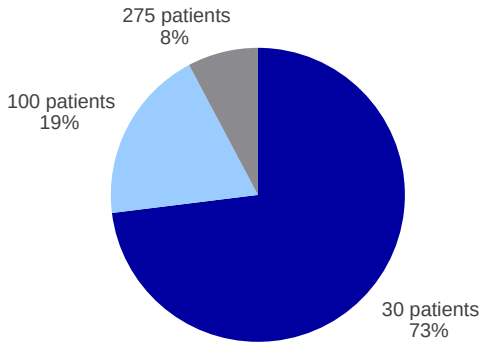
US: TREATMENT GAP IS CLOSING, IN THOUSANDs



Source: Substance Abuse and Mental Health Services Administration (SAMHSA)

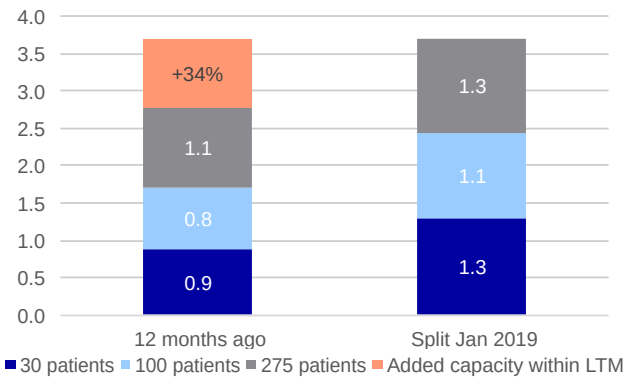
As of 21 January, there were close to 60,000 physicians and practitioners in the US with a DATA-2000 certification allowing them to prescribe buprenorphine-based medication to OUD patients. Of those, 73% were only allowed to treat up to 30 patients at a time; only 8% were allowed to treat the highest limit of 275 patients. This implies a current maximum treatment capacity of about 3.7 million patients in the US, if all practitioners were to fully utilise their treatment limits. For a physician to qualify for a higher patient cap, he or she needs to have practiced for at least 12 months under a DATA-2000 waiver. Thus, there is a substantial potential for a higher overall treatment capacity in the US if some of the 30- or 100-patient cap physicians were to apply for a higher limit after having had the original DATA-2000 waiver for one year.

US: DATA-2000 PRACTITIONERS BY PATIENT CAP



Source: Substance Abuse and Mental Health Services Administration (SAMHSA)

US: IMPLICIT DATA-2000 BUP/BNX TREATMENT CAPACITY IN MILLION PATIENTS



Source: Substance Abuse and Mental Health Services Administration (SAMHSA)

Opioid addiction in Europe and the RoW

Opioid addiction in Europe mostly related to heroin

While the US opioid addiction crisis was and is mostly driven by prescription drug misuse combined with addicts diverting to illicit substances such as heroin and fentanyl mixed with other drugs, the corresponding addiction problem in Europe is still mostly driven by heroin abuse, according to the World Drug Report 2018.

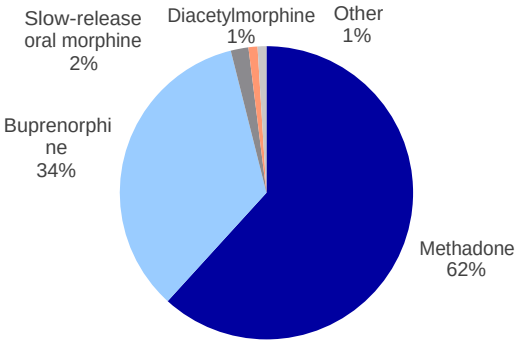
8,000 overdose deaths in the EU compared to 64,000 in the US

Overdose deaths from the use of drugs in the EU were ~8,000 in 2016, much lower than the ~64,000 that same year. This is despite Europe's population of 511 million people, which is about 58% larger than in the US. This may be due to various factors, among others the lower prevalence of fentanyl use in the EU.

1.3 million people with high-risk opioid use in Europe in 2016 vs. 2.1 million OUD patients in the US or 11.8 million opioid misusers

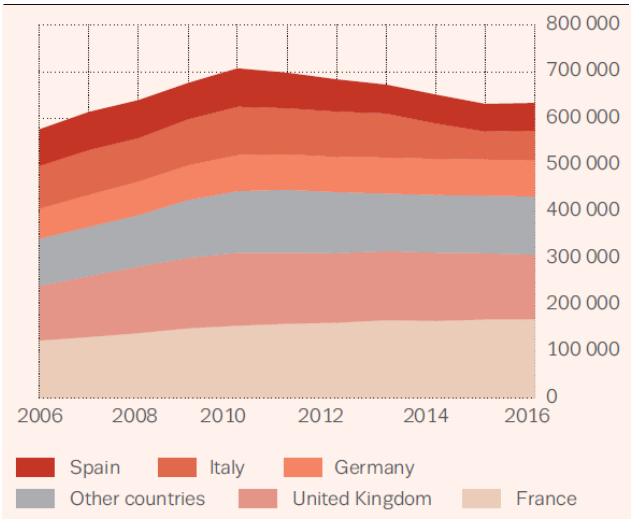
The number of high-risk opioid users in Europe stagnated by 1.3 million in 2016, according to most recently available statistics by the European Monitoring Center for Drugs and Drug Addiction (EMCDDA). The indicators that overlap the most with the EMCDDA's definition of high-risk opioid users may be the number of OUD patients in the US, which was 2.1 million in 2016, as well as the number of opioid misusers, which was 11.8 million in 2016 in the US.

EU: TYPE OF OPIOID SUBSTITUTION TREATMENT IN 2016



Source: EMCDDA

EU: NUMBER OF OPIOID SUBSTITUTION TREATMENTS

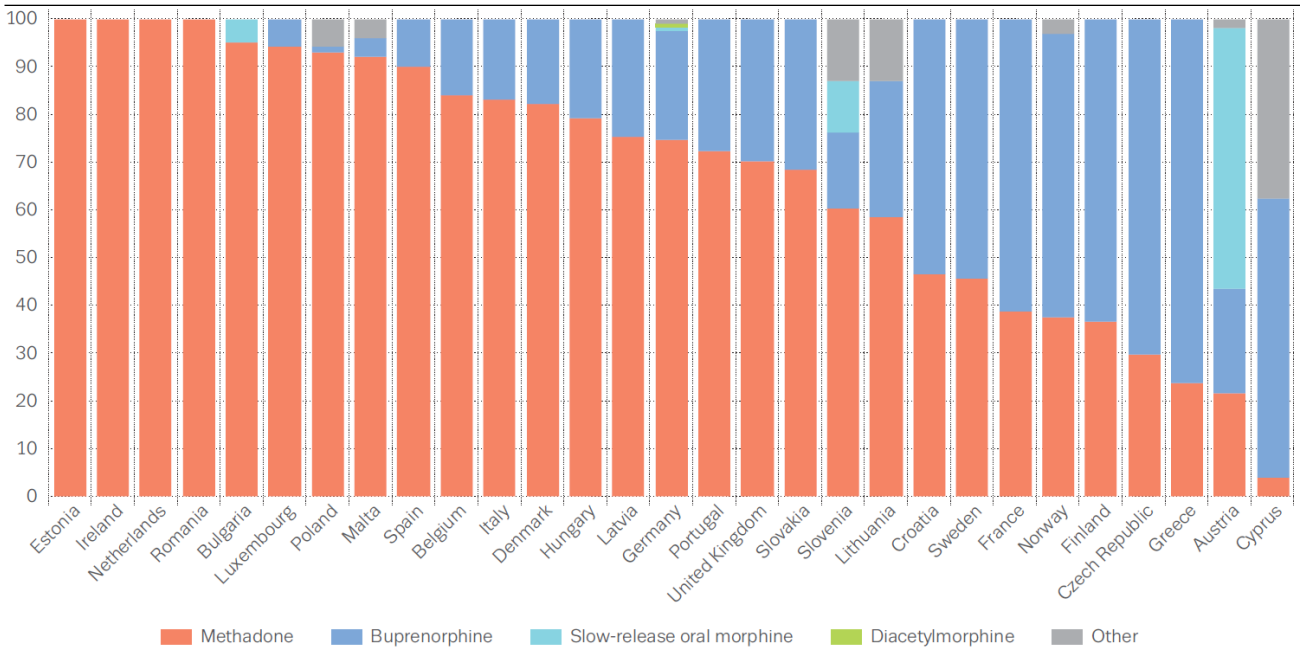


Source: EMCDDA

The number of opioid substitution treatments peaked in the EU in 2010 and has declined since then to about 628,000 in 2016, according to the EMCDDA. The agency states factors such as demand, provision and shift in treatment goals as being behind the decrease. Overall, treatment with buprenorphine was, at a share of ~34%, much less widespread than in the US and methadone-based treatment in the EU prevail with ~62%.

So, there is room for a growing share of buprenorphine-based substitution treatment in the EU, given its superior traits over methadone-based treatment. We believe that the practical advantages of buprenorphine (eg sublingual formulation), its more controlled "high" and its lower diversion potential when combined with naloxone, make it superior to methadone substitution treatment.

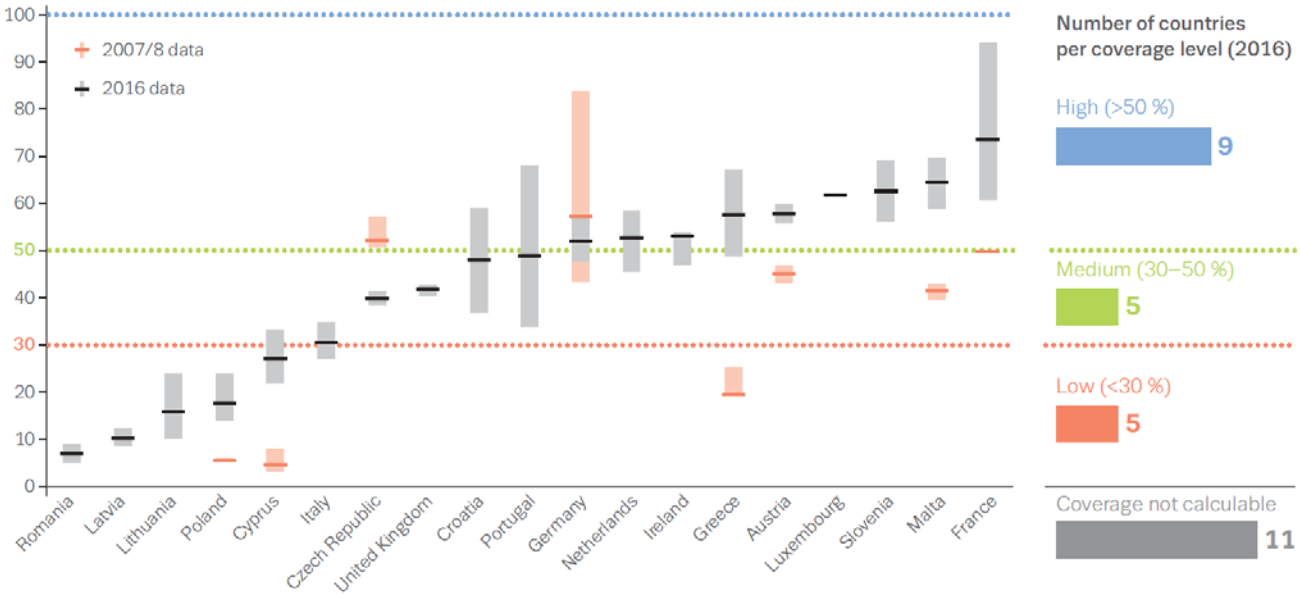
EU: TYPE OF OPIOID SUBSTITUTION TREATMENTS



Source: EMCDDA

The prevalence of buprenorphine- and methadone-based treatments varies substantially across individual countries. While there are still a few countries, including Estonia, Ireland and the Netherlands, that rely only on methadone-based treatment, buprenorphine-based treatment was most widespread in Greece, Czech Republic and Finland, with a share of ~65-75%.

EU: SHARE OF HIGH-RISK OPIOID USERS RECEIVING TREATMENT IN 2016 OR MOST RECENT YEAR AND 2007/08



Source: EMCDDA

Looking at the number of high-risk opioid users who have received treatment, there is still a substantial treatment gap in most countries. In some, such as Poland and Cyprus, the gap is more than 90%.

Update on market access/commercialisation strategy

Coverage in commercial and public plans will increase in 2019

Orexo's market access position in Q4 in the US was mostly unchanged compared to Q3 2018. In Q1 2019, however, Zubsolv's coverage in both commercial and public health insurance plans increased. The coverage in commercial plans increased by 2 pp to 97% thanks to a new agreement with Blue Cross North Carolina. In the public plans, where Zubsolv has a lower coverage rate, coverage increased by 6 pp to 38% as a result of new agreements in Ohio, Alabama, Texas and Florida.

Orexo is currently in active partnership discussions

On 13 December, Orexo announced the termination of its licensing agreement with Mundipharma for marketing Zubsolv in the rest of the world. Subsequently, the company is currently in active discussions with several other companies who are interested in becoming Orexo's partner for all or selected markets outside the US.

Update on patent litigation lawsuit

On 11 January, Orexo announced that the US District Court for the District of Delaware had issued a final, non-appealable judgement that Actavis' generic Zubsolv products infringe on Orexo's US patent '330. This follows a decision by the US Court of Appeals for the Federal Circuit on 10 September 2018, that the patent is valid. Since the Delaware judgement is non-appealable, Zubsolv US is now protected until 2032.

Moreover, Orexo has alleged that Actavis' generic versions of Suboxone and Subutex tablets infringe on Orexo's US Patent 8,454,996 (the '996 patent). Actavis' generic version of Suboxone was approved by the FDA in February 2013 and its generic version of Subutex in February 2015. Orexo is seeking compensation for damages caused by Actavis' infringement of the '996 patent since the year of approval of these two products. The trial is scheduled for 25-29 March and will be settled by a jury, meaning that a decision will made shortly after the actual court date. As a consequence of the continued disputes with Actavis, we expect elevated operating costs during the beginning of 2019, owing to the related legal costs.

Update on internals

Update on COGS savings programme

We estimate a COGS savings level of 29% for 2019 compared with 2017

In the quarter, the average cost per tablet was 21% lower than the average realised in 2017. As previously communicated, Orexo is working on an efficiency programme to reduce the average cost per tablet by around 35% compared with 2017. The goal is to reach this level by H2 2019. While we expect the gross margins to improve, we take a cautious stance on when the manufacturing efficiency programme can materialise and we estimate a COGS savings level of 29% for 2019 compared with 2017.

New leadership structure

On 1 November, Henrik Juuel stepped down as CFO and was succeed by Joseph DeFeo, former Head of Finance and Head of Operations of Orexo's US subsidiary. The change was communicated and anticipated previously. As Mr DeFeo is remaining physically in the US, Orexo's leadership is now less concentrated on Sweden and better reflects the locations of its operations and its geographical revenue profile.

Factors to consider when investing in Orexo

An investment in Orexo offers exposure to the speciality pharmaceuticals sector, with a strong emphasis on US opioid addiction treatment. Orexo's core market is growing at a CAGR of 14%. Its key product, Zubsolv, benefits from patent protection until 2032 and is being commercialised by Orexo's local US sales team. The cash flow friendly business model provides room for acquisitions and capital distributions.

We consider the following factors key when evaluating an investment in Orexo:

Key investment factors

- Zubsolv, Orexo's key sales and profit driver, gives exposure to the US market for opioid addiction treatment; a market growing at a CAGR of ~14%.
- Orexo enjoys above-average market access in the US, which should enable it to grow its market share by an estimated ~14% by Q4 2019E compared to Q4 2017.
- Profitability is expected to increase through operating leverage upon sales growth and product portfolio expansion and through a more efficient manufacturing setup.
- Orexo enjoys a strong financial position given a very cash flow friendly setup, a growing net cash position and secured long-term debt financing.

The key risk factors related to an investment in Orexo in our view are:

Key risk factors

- Zubsolv's target market, buprenorphine-naloxone (BNX) drugs, is driven by patient need and the lack of better alternatives. There is a risk that new treatment methods or substances are launched that make BNX treatment less relevant.
- Zubsolv is protected by several US patents until 2032. If Zubsolv were to lose its patent protection, it would potentially face intense competition from generics, putting pressure on margins and market share.
- US market access determines Zubsolv's market share and depends on continued, successful negotiations with pharmacy benefit managers (PBM) and payers.
- Orexo's sales are highly concentrated. The company needs to develop its pipeline or acquire other drugs if it is to hedge against the increasing risk of its key product eventually progressing towards maturity.

A full description of the main risk factors we consider relevant can be found under the "Risk Factors" section.

US opioid epidemic drives sales of treatment drugs

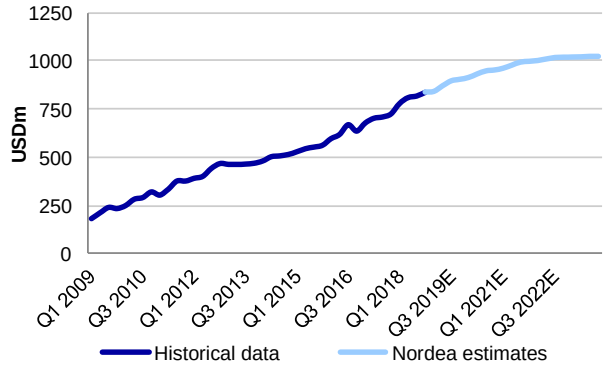
Underlying market growing at a CAGR of 14% and is structurally sustainable

Orexo's key revenue driver, Zubsolv (84% of net revenue in 2018), targets the market for opioid addiction treatment. In the US in particular, there is a high and rapidly increasing need for treatment. Zubsolv's target market for BNX drugs grew at a CAGR of 14% in 2010-18 and we expect it to maintain momentum at a CAGR of ~7% until 2023, given the underlying rise in opioid addiction.

US patent protection secures exclusivity until 2032

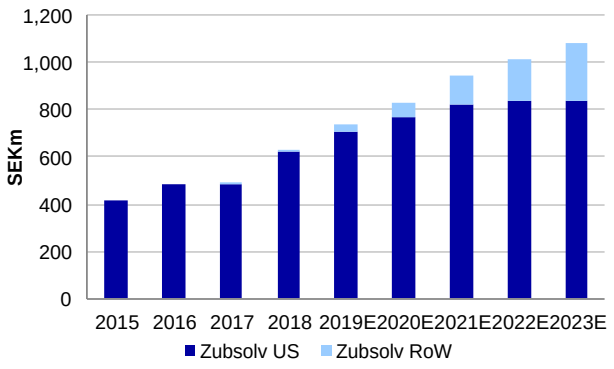
Zubsolv, which Orexo launched in the US in 2013, saw its net sales grow at a CAGR of 14% in 2015-18 and is patent protected until 2032. The drug was approved in Europe and launched in Germany and Sweden in June 2018, and has provided fixed milestone and variable royalty payments in addition to reimbursements for production costs. However, the agreement with the distribution partner outside the US, Mundipharma, has been cancelled and Orexo will regain the ex-US rights in April. The company is continuously evaluating new partners for the distribution of Orexo outside the US and expects to reach an agreement during 2019. Structural growth prospects are very favourable worldwide, as opioid dependence is spreading globally.

ESTIMATED US BNX PRESCRIPTIONS, QUARTERLY



Source: Symphony Health and Nordea estimates

ESTIMATED ZUBSOLV NET SALES



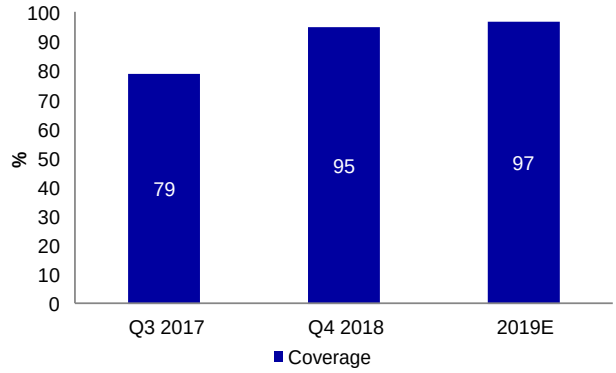
Source: Company data and Nordea estimates

Highly competitive market access pushing market share

Strategically important US commercial operations allow optimised market access

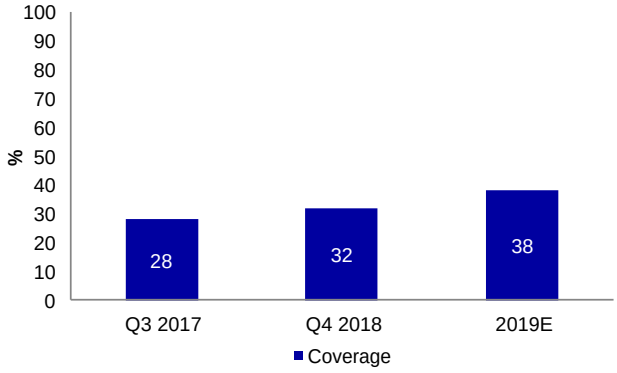
Zubsolv's market share in the US is driven by market access, monitored and negotiated by Orexo's local US operations. It is of strategic importance, as past sales records show a highly positive correlation between market access and sales. Orexo secured best-in-class coverage in the commercial payer segment with reimbursement coverage of 95% in Q4 2018 and has coverage of 32% in the public segment the same quarter. The company has secured agreements which will expand its coverage to 97% and 38% in the commercial and public plans respectively. The company enjoys exclusive and preferred positions on some of the largest public and commercial US payers' formulary lists. We estimate that the elevated market share (+1 pp) due to improved market access will yield additional net sales of SEK ~0.6bn in 2018-23.

ZUBSOLV US COVERAGE IN COMMERCIAL PLANS



Source: Company data and Nordea estimates

ZUBSOLV US COVERAGE IN PUBLIC PLANS



Source: Company data and Nordea estimates

Strong US market expertise allows for optimised product characteristics

Maintaining local commercial operations helps to build expertise in commercialising drugs in the world's largest pharmaceuticals market. It helps Orexo to improve its market access by tailoring the product and value chains towards US reimbursement mechanisms, such as by adopting sales-optimal rebate schemes and optimising reimbursement-critical product characteristics. Through its field forces, Orexo has access to physicians prescribing Zubsolv and can use this first-hand market knowledge in its R&D efforts.

Margin upside potential through operational leverage

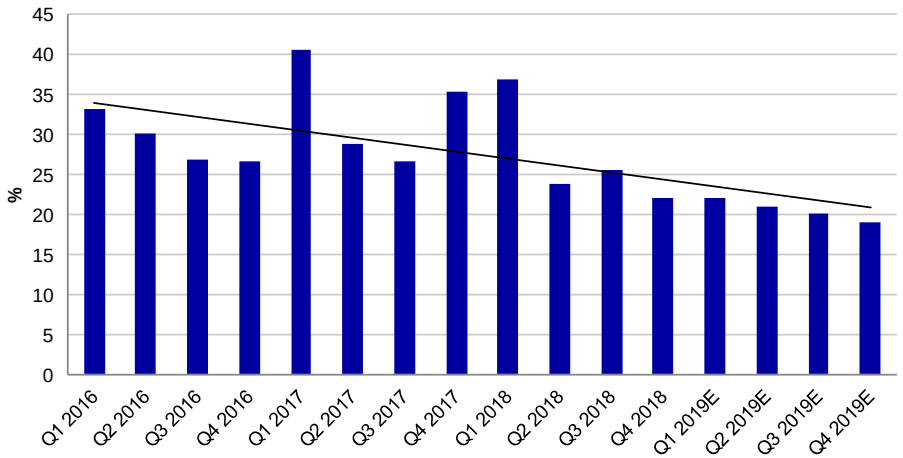
Scaling up revenue will boost profit margins

Net profit impact of SEK 80m annually

Orexo's operating model is scalable. Growing sales of Zubsolv will further improve the company's operating margin as production becomes more efficient. In addition, the company aims to reduce its per-tablet product cost by 35% by H2 2019, compared with the average level in 2017. In Q4 2018, Orexo had reduced the COGS per tablet by 21%. We remain cautious, however, on the full reduction being achieved in 2019E and estimate COGS savings of 29% compared to 2017 on a full-year basis.

Increased production quantities will reduce relative COGS

COGS AS A % OF NET SALES OF ZUBSOLV, QUARTERLY



Source: Company data and Nordea estimates

Commercial platform can be utilised to sell other drugs

The company may utilise its fully functional commercial platform to sell drugs other than Zubsolv in the US, at limited additional cost, leveraging its operations for the benefit of higher profit margins.

Other addiction areas may be the most natural expansion options

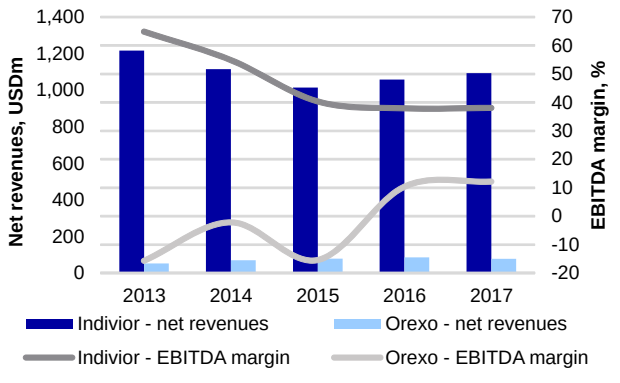
We estimate that commercialising another addiction treatment drug such as naltrexone would require only limited additional sales efforts, as the same physicians and clinics would be targeted. High synergies could potentially be achieved with drugs from other addiction treatment areas such as alcoholism, illicit substance abuse or behavioural addiction. US rehabilitation clinics often specialise in treating various mental disorders as well.

We estimate that administrative expenses and R&D costs, which accounted for 23% and 32% of the company's total operating costs in 2017, respectively, will increase only disproportionately by adding another product to the portfolio.

Indivior is an example of economies of scale: 2013-17 EBITDA margin 49 pp higher and sales per employee 86% higher than Orexo

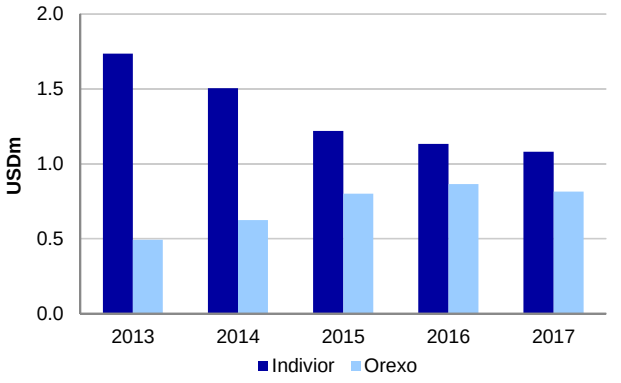
Looking at Indivior, Orexo's larger competitor, gives some idea of how operations could potentially be leveraged with larger revenue. Indivior's average EBITDA margin in 2013-17 was 49 pp higher than Orexo's during the same period. Indivior generated net revenue in 2013-17 that was ~15x that of Orexo, while employing only ~8x as many employees.

NET REVENUE AND EBITDA MARGIN



Source: Company data and Indivior

NET REVENUE PER EMPLOYEE



Source: Company data and Nordea estimates

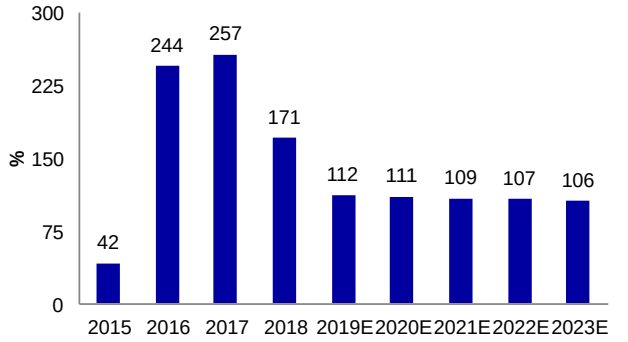
Strong financial position allows smart investments

Orexo benefits from a very cash flow friendly setup. As of H2 2018, manufacturing will be performed via another contract manufacturing agreement, keeping capex at a minimum. We estimate an average cash conversion rate of 108% for 2019-24E, resulting in estimated aggregate FCF of SEK ~1.4bn during the period.

The company has a net cash position and has secured financing of up to SEK 500m through an extendable SEK 325m bond expiring in late 2021. We forecast a continuously growing net cash position that provides Orexo with high flexibility to

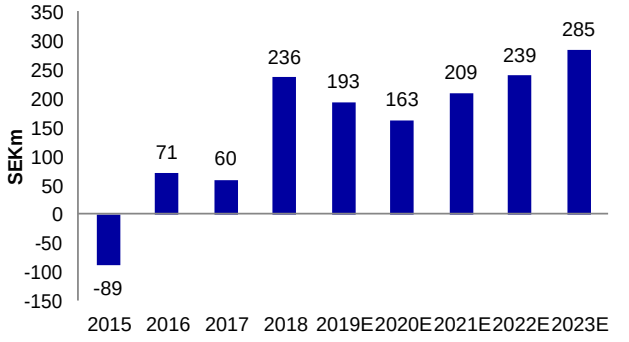
invest in R&D, to acquire drugs, to fund legal expenses or to distribute cash to its shareholders.

ESTIMATED CASH CONVERSION RATE



Source: Company data and Nordea estimates

ESTIMATED FREE CASH FLOW



Source: Company data and Nordea estimates

Valuation

Based on the assumption that Orexo can deliver according to our expectations, we estimate a fair value range of SEK 64-84 per share, taking into account variations in sales, profit margins and WACC. The net amount of litigation compensation that Orexo might be awarded provides further upside potential of SEK 4-10 per share. Our fair value is derived using a fundamental DCF approach.

As Orexo won its appeal case against Actavis, we do not anticipate any more legal uncertainty over the company's IP protection in our base case. We believe that the ongoing litigation compensation case against Actavis brings upside potential of SEK 4-10 per share, which is not included in our base-case forecasts.

Key risk factors revolve around the US Zubsolv market

Risk of BNX being replaced by new treatment methods or substances such as long-acting depot formulations

BNX sales have been growing robustly because of the increasing patient need and the lack of alternatives. It would be a risk for Orexo if a new treatment method or a better substance was developed, approved and launched. Pharmaceutical markets are driven by innovation and payers' formulary lists adapt quickly when a better alternative is available. Indivior's long-acting BUP depot formulation, Sublocade, launched in the US during Q1 2018, but we have not seen any sizeable impact on Zubsolv prescriptions at this point.

Losing patent protection is a potential risk to market share and margins

We believe that loss of patent protection in general represents downside risk to Orexo's medium-term performance. Even though Zubsolv is protected by several US patents until 2032 and Orexo won the appeal case against Actavis, further patent infringements and litigation cases with unknown outcomes and high legal costs are a risk, as they would be for any organisation dependent on its IP.

Losing market access is a risk to market share and sales

Losing market access is a risk for Orexo, as Zubsolv sales in the US are highly dependent on it. Market access and formulary positions are constantly being changed and renegotiated and cannot be taken for granted.

High sales concentration to Zubsolv in the US is a risk

Orexo's sales are highly concentrated to Zubsolv in the US. Even though we estimate Zubsolv sales in the US will lose their weight in Orexo's sales mix, the combined worldwide revenue from the drug is likely to gain further in weight once Abstral royalties from Europe and the US cease at the end of 2019E.

Revised estimates

We lower our Zubsolv US revenue estimates for 2019 given the expected increase in pricing pressure from potential generic competition. At the same time, we maintain our elevated operating costs estimates and lower profit margins for 2019E, owing to ongoing legal expenses related to the '996 damage compensation trial. The update on Orexo's manufacturing efficiency programme encourages us to fine-tune our gross margin estimates in the short and long term.

Zubsolv's gross-to-net factor fell more than anticipated in Q4, indicating slightly elevated rebates

Following Orexo's Q4 results, we adjust our estimates. First, we adjust our estimates for Zubsolv US, as we previously expected lower rebate levels and a higher gross-to-net factor. We believe pricing pressure will likely increase throughout 2019 given the potential launch of generics. We also decrease our estimates for Edluar given that the recovery from its low in H1 2018 is progressing more slowly than anticipated.

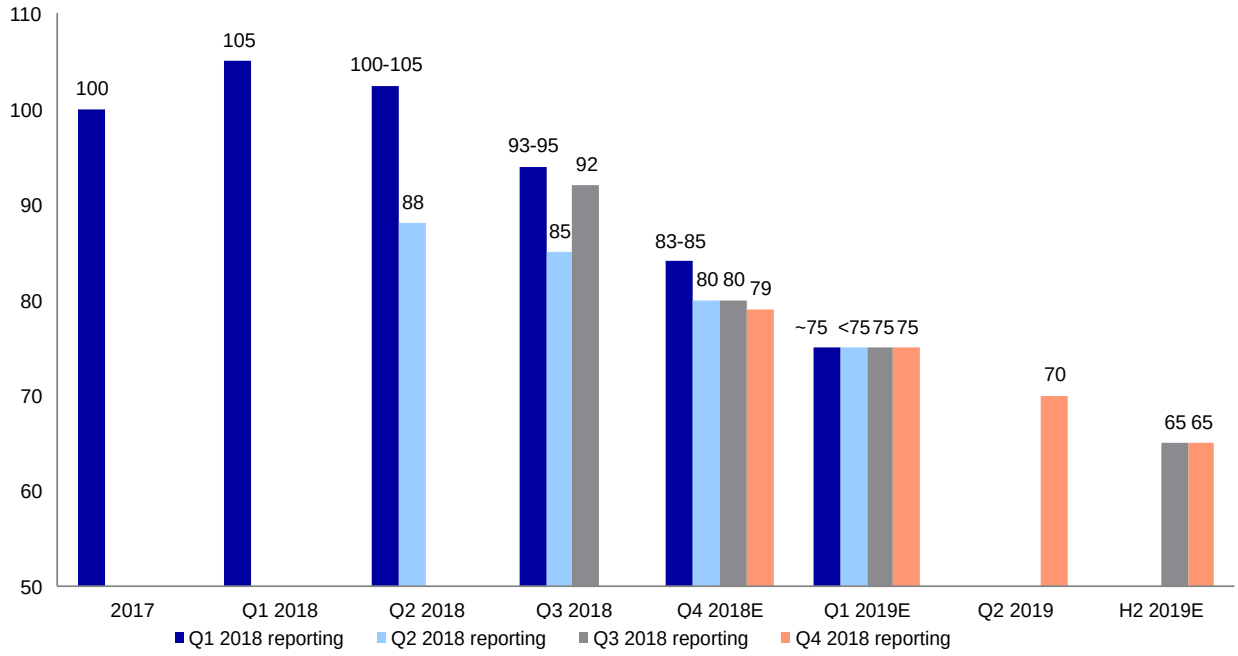
Ramped up '996 patent litigation lawsuit triggers temporary spike in administrative costs for 2019E

Orexo's legal costs surprised us once again in Q4 and caused EBIT and EBITDA to come in below our expectations. This spike in legal costs relates to the ramped-up litigation compensation lawsuit versus Actavis, regarding Orexo's '996 patent. There is a court hearing scheduled for March 2019. We conservatively maintain our elevated 2019 administrative cost estimates, resulting in smaller estimated profit margins overall, in light of decreased sales estimates.

We remain cautious on the manufacturing efficiency programme and wait for further savings to materialise before fully implementing management guidance into our estimates

We adjust our gross margin estimates for 2019 downwards in light of the company's progress on its manufacturing efficiency programme. Orexo showed progress with the programme and reiterated its costs targets for 2019. The company still aims to reduce its per-tablet production cost by 35% by H2 2019, as compared with the average level in 2017. We remain more cautious, given the high degree of unit cost fluctuations in the past, and we estimate a 2019 COGS savings level of 29% compared to 2017 on a full-year basis.

REPORTED REDUCTIONS AND MANAGEMENT GUIDANCE ON COGS PER TABLET REDUCTION TARGETS, INDEXED (2017=100)



Source: Company data

QUARTERLY ESTIMATE REVISIONS

SEKm	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019E	Q2 2019E	Q3 2019E	Q4 2019E
Net revenues	140	200	217	227	174	195	247	254
revision	0%	0%	0%	-5%	-2%	-2%	-2%	-2%
Gross profit	91	162	174	184	137	155	205	214
revision	0%	0%	0%	-8%	-2%	-2%	-2%	-2%
EBITDA	-17	51	40	43	2	25	82	90
revision	0%	0%	0%	-37%	-89%	-8%	2%	1%
EBIT	-22	45	35	38	-4	20	77	85
revision	0%	0%	0%	-40%	-142%	-10%	2%	1%
Net income	-26	50	62	52	-8	16	73	81
revision	0%	0%	0%	-13%	-300%	-12%	2%	1%
EPS	-0.74	1.43	1.77	1.47	-0.23	0.47	2.07	2.30
revision	0%	0%	0%	-21%	-221%	-23%	-3%	-3%
Revenues per type								
Sales, products	131	158	166	172	160	180	193	196
Royalties	9	11	51	55	12	13	51	56
License revenues	0	31	0	0	2	2	2	2
Other	0	0	0	0	0	0	0	0
Revisions per revenue type								
Sales, products	0%	0%	0%	-2%	-2%	-2%	-3%	-3%
Royalties	0%	0%	0%	-12%	-6%	-3%	-1%	-1%
License revenues	n.a.	0%	-20%	-19%	0%	0%	0%	0%
Other	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Revenues per product								
Zubsolv US	131	158	165	167	155	174	187	188
Zubsolv RoW	0	31	0	5	8	9	11	13
Abstral	6	12	49	52	7	7	45	50
Edluar	3	-1	2	3	3	4	4	4
Pipeline projects	0	0	0	0	1	1	1	1
Revisions per product								
Zubsolv US	0%	0%	0%	-4%	-2%	-2%	-3%	-3%
Zubsolv RoW	n.a.	0%	0%	94%	1%	1%	1%	1%
Abstral	0%	0%	0%	-9%	1%	1%	0%	0%
Edluar	0%	0%	0%	-28%	-20%	-12%	-12%	-12%
Pipeline projects	n.a.	n.a.	n.a.	n.a.	0%	0%	0%	0%

Source: Company data and Nordea estimates

Valuation

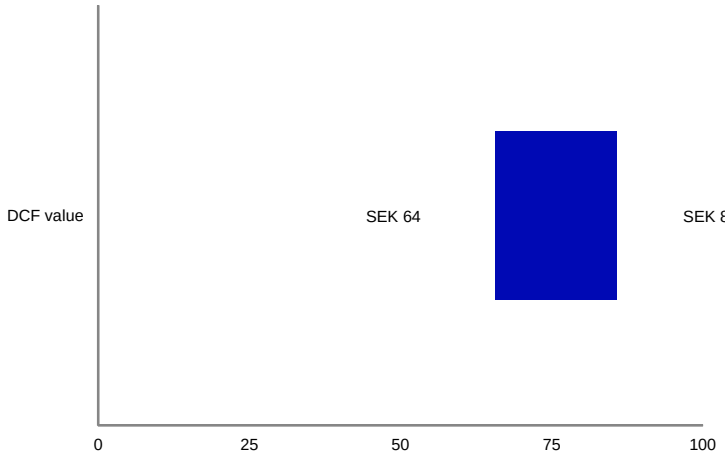
We estimate Orexo's fair value at SEK 64-84 per share based on our fundamental DCF approach. A relative multiples valuation based on a select group of peers confirms the robustness of our conclusion. We believe the company's WACC will be reduced now that the uncertainty surrounding its IP litigation case in the US is over. Open litigation compensation claims could provide upside potential of SEK 4-10, resulting in a fair value of SEK 68-94.

Valuation highlights

We derive a fair equity value of SEK 64-84 per share for Orexo

We rely primarily on our fundamental DCF framework to derive an equity valuation range of SEK 64-84 per share. In our view, a fundamental DCF model is the most appropriate method for estimating Orexo's fair value. Our valuation does not incorporate any potential value from future acquisitions and lawsuit wins or losses. We include a relative valuation as a sanity check and to compare Orexo with a group of peers. The peer group valuation broadly confirms the fair value we derive in our fundamental DCF approach.

VALUATION OVERVIEW, SEK PER SHARE



Source: Nordea estimates

DCF valuation

Our valuation approach is based on a DCF framework

One of the most common ways to value the attractiveness of an investment opportunity is the discounted cash flow (DCF) method. A DCF model discounts all available cash flow for equity, bond and non-equity holders at the weighted average cost of capital (WACC). In other words, WACC represents a blended cost of capital for all invested capital in the company. In fundamental terms, a DCF framework is built on three parts:

- Discounting the company's free cash flow at WACC.
- Identifying the value of debt and other non-equity claims on the enterprise value.
- Deducting all claims to determine the value of the common equity. The fair value per share is then simply calculated by dividing the equity value by the number of outstanding shares.

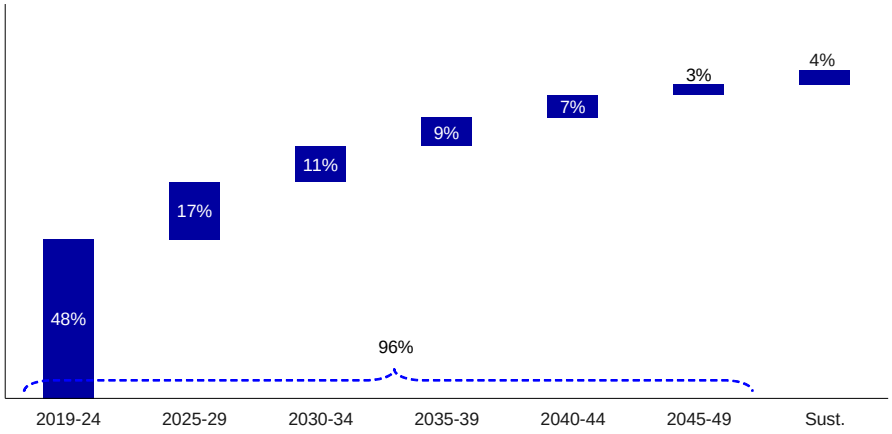
A DCF valuation is commonly considered among academics and practitioners to be the best way to capture the underlying fundamental drivers of a company, eg the cost of capital, growth rates, reinvestment rates, etc. If applied correctly, it represents the best way to approximate the true intrinsic value of a company. A key advantage of a DCF framework compared with other valuation methodologies is that it also focuses on streams of cash rather than accounting earnings. Its main disadvantage is its relative sensitivity to changes in input values.

Valuation distribution and assumptions

In the following chart and table, we illustrate the distribution of our valuation and the underlying assumptions.

We estimate 48% of the present value is attributable to DCF in 2018-23E

VALUATION DISTRIBUTION, NORDEA FAIR VALUE



Source: Nordea estimates

DCF VALUATION ASSUMPTIONS, NORDEA FAIR VALUE

	2019-24	2025-29	2030-34	2035-39	2040-44	2045-49	Sust.
Sales growth, CAGR	7.1%	4.5%	4.0%	3.5%	3.0%	2.5%	
EBIT-margin, excluding associates	21.4%	12.8%	12.8%	12.8%	12.8%	4.7%	
Capex/depreciation, x	0.3	1.0	1.0	1.0	1.0	1.0	
Capex/sales	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	
NWC/sales	32.2%	37.5%	37.5%	37.5%	37.5%	37.5%	
FCFF, CAGR	9.4%	-0.5%	4.6%	4.1%	3.6%	-20.9%	2.5%

Source: Nordea estimates

WACC

We estimate a WACC of 9.0%. Our assumptions are outlined below.

We apply a WACC of 9.0%

WACC COMPONENT ASSUMPTIONS, NORDEA FAIR VALUE

Risk-free interest rate	1.5%
Market risk premium	5.5%
Forward looking asset beta	1.38
Beta debt	0.20
Forward looking equity beta	1.60
Cost of equity	10.3%
Cost of debt	4.5%
Tax-rate used in WACC	21%
Equity weight	80%
WACC	**9.0%**

Source: Nordea estimates

DCF sensitivity

To test the robustness of our DCF valuation, we perform a sensitivity analysis with varying assumptions about sales growth, EBIT margin and WACC. In particular, the assumed deviations in sales growth have a significant impact on the calculated fair value.

Orexo's fair value appears to be more sensitive to deviations in sales growth and less sensitive to WACC deviations

DCF SENSITIVITY ANALYSIS, ESTIMATED FAIR VALUE

		WACC				
		8.5%	**8.7%**	**9.0%**	**9.2%**	**9.5%**
EBIT margin change	**+1.8pp**	82.9	80.7	78.6	76.7	74.8
	+0.9pp	79.5	77.5	75.6	73.8	72.1
		76.0	74.2	**72.5**	70.9	69.4
	-0.9pp	72.6	71.0	69.5	68.0	66.6
	-1.8pp	69.2	67.8	66.4	65.1	63.9

		WACC				
		8.5%	**8.7%**	**9.0%**	**9.2%**	**9.5%**
Sales growth change	**+1.8pp**	80.7	78.5	76.5	74.6	72.8
	+0.9pp	78.2	76.3	74.4	72.7	71.0
		76.0	74.2	**72.5**	70.9	69.4
	-0.9pp	74.1	72.4	70.8	69.3	67.9
	-1.8pp	72.3	70.8	69.3	67.9	66.6

		Sales growth change				
		-1.8pp	**-0.9pp**		**+0.9pp**	**+1.8pp**
EBIT margin change	**+1.8pp**	74.2	76.3	78.6	81.3	84.2
	+0.9pp	71.7	73.5	75.6	77.8	80.4
		69.3	70.8	**72.5**	74.4	76.5
	-0.9pp	66.9	68.1	69.5	71.0	72.7
	-1.8pp	64.4	65.4	66.4	67.6	68.8

Source: Nordea estimates

Valuation triggers: US IP litigation cases

The litigation compensation case against Actavis provides upside potential of SEK 4-10 per share

Orexo's litigation compensation case is not priced into our DCF valuation, as we consider the outcome uncertain. Orexo is suing Actavis for compensation due to infringement of Orexo's patent '996 – which Actavis has admitted. Based on estimated net sales generated by Actavis related to the IP in question, we believe compensation of USD 15-40m may be awarded to Orexo in 2019E. Anticipating a positive outcome for Orexo and considering related legal costs could result in upside potential of SEK 4-10 per share.

Risk factors

Overall, Orexo operates a business model with lower risk than a typical speciality pharmaceuticals company of its size. Many risks are naturally hedged by sharing parts of operations, research and sales with external partners. Nevertheless, some industry-inherent risks cannot be hedged against fully. Most notable, in our view, are the risks of losing market access in the US, losing intellectual property rights, and improved treatment options cannibalising buprenorphine-naloxone (BNX) prescriptions.

Orexo is exposed to different risk factors that are common to fully-integrated pharmaceutical companies.

New treatment methods and substances

New innovative treatment alternatives may cannibalise existing markets

As usual with pharmaceuticals, there is also the risk of new substances or treatment innovations making existing products redundant or inferior. A potential risk to Zubsolv's market share is the newly-developed long-lasting depot formulation by Indivior and other competitors. We argue, however, that these will remain niche products for an extended period due to premium pricing and practical hurdles (described in more detail in our initiation report published on 27 June). Sales cannibalisation by new treatment alternatives could naturally happen in both the BNX and fentanyl spaces.

Intellectual property (IP)

Risk of losing patent protection is minor considering the appeal case win

There is risk related to IP protection, despite the fact that Orexo won its appeal case against Actavis. Even though core product Zubsolv is protected by several patents and its patent validity has been confirmed by a US appeals court, there is a risk that a competitor infringes another patent. This could cost Orexo significant resources to defend it in court, with an uncertain outcome. We believe that even if Orexo's IP were to be infringed by another competitor, it would not necessarily lose IP protection, as the case against Actavis shows. Besides, the company would always benefit from its favourable market access and commercialisation knowhow, independent of its IP situation.

US market access and reimbursement

Losing US market access is a risk, as it immediately impacts market share

Losing access to parts of the US pharmaceuticals market could severely impede commercialisation in the US. As seen in the past, market access is the main market share driver in US BNX prescriptions. Reimbursement coverage by the different public and commercial payers is equally important.

Opioid addiction treatment may retain public funding despite lacking support for Obamacare

There is also a risk that public funding may be reduced for political reasons. The Trump administration has not been supportive of the ACA ("Obamacare") and health exchanges are losing support. Even though the opioid epidemic has been labelled a "national health emergency", the withdrawal of public funding is a risk for Orexo's US sales. We consider this a small and manageable risk, as public and political support for the fight against the US opioid epidemic remain significant.

Revenue concentration on Zubsolv

Sales concentration is estimated to decrease but remains a risk

Orexo's sales concentration stands at 76% for Zubsolv as of 2017 and at an estimated 94% by 2023. Even though we estimate the overall revenue share of Zubsolv sales in the US to decrease to 69% by 2023, the company's sales mix remains a potential risk. We believe Orexo will take measures to reduce the high weighting of Zubsolv gradually by adding other products and R&D projects to its portfolio.

Regulatory risk

Abstral and Zubsolv are based on specially controlled substances

Both of Orexo's main drugs are specially regulated pharmaceuticals. In the case of fentanyl-based Abstral in particular, there may be a risk that regulators make it even more difficult to prescribe the drug to patients. The US market for Abstral is contracting due to an increase in regulation of opioid medicines. This, however, has to be seen in the context of the preceding, disproportionate, decade-long increase in opioid prescriptions in the US. So, the risk that tightened regulations would substantially affect fentanyl prescriptions in other markets across the world is quite small, in our view.

Dependence on key employees

Orexo's success depends on a number of key employees and their specific knowhow of and experience with the products, the project pipeline and the commercialisation of the products. We consider this risk manageable, as Orexo's main asset remains its products and IP.

Partner and customer concentration

Partner and customer concentration creates some degree of credit risk

Orexo has a few key partners and customers. Its four largest customers accounted for 84% of net sales and 87% of accounts receivable in 2017. This naturally comes with a certain risk of sales and credit concentration and could severely impact Orexo's results if one of them was not performing.

Orexo's production is entirely outsourced, which poses a significant supplier risk. Orexo carefully selects and continuously monitors its contractors and suppliers to mitigate this risk as much as possible.

Product liability

As with any pharmaceutical company, there is always risk around product liability obligations. A private individual or a public authority may sue Orexo, for instance, for undisclosed side effects. However, we see this as a very minor risk since Orexo appears to apply appropriate prudence in this matter.

FX exposure

FX risk is naturally hedged to a large extent

The unhedged exposure to the USD can have a noteworthy effect on the company's P&L and balance sheet. As of 2017, a 10% change in the value of the USD against the SEK would yield a net difference in other operating income and expenses of SEK 3m and an impact on equity of SEK 7.2m. This risk is minor, in our view, considering the usual exchange rate fluctuations.

Reported numbers and forecasts

INCOME STATEMENT

SEKm	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Net revenue	**200**	**326**	**429**	**570**	**646**	**706**	**644**	**783**	**870**	**883**	**996**
Revenue growth	n.a.	63.5%	31.6%	32.8%	13.3%	9.2%	-8.8%	21.7%	11.1%	1.4%	12.8%
of which organic	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
of which FX	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
EBITDA	0	-62	-90	-12	-100	73	78	117	199	174	219
Depreciation and impairments PPE	0	-6	-5	-5	-4	-4	-3	-3	-3	-4	-5
EBITA	0	-68	-94	-17	-104	69	75	114	196	169	214
Amortisation and impairments	0	-11	-46	-8	-77	-18	-18	-18	-18	-18	-18
EBIT	n.a.	-79	-140	-25	-181	52	57	96	178	152	196
of which associates	0	0	0	0	0	0	0	0	0	0	0
Associates excluded from EBIT	0	0	0	0	0	0	0	0	0	0	0
Net financials	0	-8	-14	-28	-23	-16	-28	-3	-3	-3	-3
Changes in value, net	0	0	0	0	0	0	0	0	0	0	0
Pre-tax profit	**0**	**-88**	**-153**	**-53**	**-204**	**36**	**30**	**92**	**175**	**148**	**193**
Reported taxes	0	2	-2	-4	-6	-7	-7	46	-2	-1	-1
Net profit from continued operations	0	-86	-155	-57	-210	29	23	138	173	147	192
Discontinued operations	0	0	0	0	0	0	0	0	0	0	0
Minority interests	0	0	0	0	0	0	0	0	0	0	0
Net profit to equity	0	-86	-155	-57	-210	29	23	138	173	147	192
EPS	**n.a.**	**-2.98**	**-4.87**	**-1.73**	**-6.09**	**0.84**	**0.67**	**3.93**	**4.92**	**4.19**	**5.46**
DPS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which ordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
of which extraordinary	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit margin in percent											
EBITDA	0.0%	-19.0%	-20.9%	-2.2%	-15.5%	10.3%	12.1%	14.9%	22.9%	19.7%	22.0%
EBITA	0.0%	-21.0%	-21.9%	-3.1%	-16.1%	9.8%	11.7%	14.5%	22.5%	19.2%	21.5%
EBIT	**n.a.**	**-24.3%**	**-32.5%**	**-4.4%**	**-28.0%**	**7.3%**	**8.9%**	**12.2%**	**20.5%**	**17.2%**	**19.7%**
Adjusted earnings											
EBITDA (adj)	0	-62	-90	-12	-100	73	78	117	199	174	219
EBITA (adj)	0	-68	-94	-17	-104	69	75	114	196	169	214
EBIT (adj)	0	-79	-140	-25	-181	52	57	96	178	152	196
EPS (adj)	**n.a.**	**-2.98**	**-4.87**	**-1.73**	**-6.09**	**0.84**	**0.67**	**3.93**	**4.92**	**4.19**	**5.46**
Adjusted profit margins in percent											
EBITDA (adj)	0.0%	-19.0%	-20.9%	-2.2%	-15.5%	10.3%	12.1%	14.9%	22.9%	19.7%	22.0%
EBITA (adj)	0.0%	-21.0%	-21.9%	-3.1%	-16.1%	9.8%	11.7%	14.5%	22.5%	19.2%	21.5%
EBIT (adj)	0.0%	-24.3%	-32.5%	-4.4%	-28.0%	7.3%	8.9%	12.2%	20.5%	17.2%	19.7%
Performance metrics											
CAGR last 5 years											
Net revenue	n.a.	n.a.	n.a.	n.a.	n.a.	28.7%	14.6%	12.8%	8.8%	6.4%	7.1%
EBITDA	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	24.6%
EBIT	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	n.m.	30.6%
EPS	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.m.	n.m.	n.m.	n.m.	45.3%
DPS	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Average last 5 years											
Average EBIT margin	n.a.	n.a.	n.a.	n.a.	n.a.	-13.9%	-7.9%	0.0%	5.6%	13.8%	16.3%
Average EBITDA margin	n.a.	n.a.	n.a.	n.a.	-12.2%	-7.1%	-1.7%	4.6%	10.1%	16.5%	18.8%

VALUATION RATIOS - ADJUSTED EARNINGS

SEKm	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
P/E (adj)	n.a.	n.m.	n.m.	n.m.	n.m.	44.7	61.6	15.0	14.9	17.5	13.4
EV/EBITDA (adj)	n.m.	n.m.	n.m.	n.m.	n.m.	19.4	18.2	15.4	10.6	11.2	8.0
EV/EBITA (adj)	n.m.	n.m.	n.m.	n.m.	n.m.	20.4	18.9	15.8	10.8	11.5	8.1
EV/EBIT (adj)	n.m.	n.m.	n.m.	n.m.	n.m.	27.4	24.7	18.7	11.8	12.9	8.9

VALUATION RATIOS - REPORTED EARNINGS

SEKm	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
P/E	n.a.	n.m.	n.m.	n.m.	n.m.	44.7	61.6	15.0	14.9	17.5	13.4
EV/Sales	0.00	4.05	12.46	8.14	3.81	2.01	2.21	2.29	2.43	2.21	1.75
EV/EBITDA	n.m.	n.m.	n.m.	n.m.	n.m.	19.4	18.2	15.4	10.6	11.2	8.0
EV/EBITA	n.m.	n.m.	n.m.	n.m.	n.m.	20.4	18.9	15.8	10.8	11.5	8.1
EV/EBIT	n.a.	n.m.	n.m.	n.m.	n.m.	27.4	24.7	18.7	11.8	12.9	8.9
Dividend yield (ord.)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
FCF yield	n.m.	2.4%	-2.3%	4.1%	-4.1%	5.5%	4.2%	11.4%	7.5%	6.3%	8.1%
Payout ratio	n.a.	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data and Nordea estimates

BALANCE SHEET

SEKm	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
Intangible assets	0	135	195	259	155	138	121	104	87	72	57
of which R&D	0	106	164	224	147	132	117	100	85	69	54
of which other intangibles	0	3	4	7	8	6	5	4	3	3	3
of which goodwill	0	26	26	27	0	0	0	0	0	0	0
Tangible assets	0	35	33	29	25	22	20	20	18	18	18
Shares associates	0	0	0	0	0	0	0	0	0	0	0
Interest bearing assets	0	0	0	0	0	0	0	0	0	0	0
Deferred tax assets	0	0	0	3	18	25	28	93	93	93	93
Other non-IB non-current assets	0	19	0	1	2	8	7	10	10	10	10
Other non-current assets	0	0	0	0	0	0	0	0	0	0	0
Total non-current assets	0	189	228	293	200	193	177	227	208	193	178
Inventory	0	28	383	488	403	344	250	174	193	196	221
Accounts receivable	0	18	36	142	168	179	218	0	0	0	0
Other current assets	0	19	19	32	51	21	31	296	329	334	377
Cash and bank	0	228	106	285	198	282	328	590	783	945	1,154
Total current assets	0	293	544	946	820	826	827	1,060	1,305	1,475	1,752
Assets held for sale	0	0	0	0	0	0	0	0	0	0	0
Total assets	**0**	**482**	**772**	**1,239**	**1,020**	**1,019**	**1,004**	**1,287**	**1,513**	**1,668**	**1,930**
Shareholders equity	0	191	161	468	270	310	329	476	649	796	988
Of which preferred stocks	0	0	0	0	0	0	0	0	0	0	0
Of which equity part of hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Minority interest	0	0	0	0	0	0	0	0	0	0	0
Total Equity	0	191	161	468	270	310	329	476	649	796	988
Deferred tax	0	0	0	0	0	0	0	0	0	0	0
Long term interest bearing debt	0	118	104	494	494	398	319	321	321	321	321
Pension provisions	0	0	0	0	0	0	0	0	0	0	0
Other long-term provisions	0	4	10	9	7	1	6	7	7	7	7
Other long-term liabilities	0	0	0	0	0	0	0	0	0	0	0
Convertible debt	0	0	0	0	0	0	0	0	0	0	0
Shareholder debt	0	0	0	0	0	0	0	0	0	0	0
Hybrid debt	0	0	0	0	0	0	0	0	0	0	0
Total non-current liabilities	0	122	114	503	501	399	325	327	327	327	327
Short-term provisions	0	0	0	0	122	164	201	266	295	300	338
Accounts payable	0	20	138	29	35	36	46	0	0	0	0
Other current liabilities	0	149	359	239	92	110	104	218	242	245	277
Short term interest bearing debt	0	0	0	0	0	0	0	0	0	0	0
Total current liabilities	0	169	497	268	249	310	350	483	537	545	615
Liabilities for assets held for sale	0	0	0	0	0	0	0	0	0	0	0
Total liabilities and equity	**0**	**482**	**772**	**1,239**	**1,020**	**1,019**	**1,004**	**1,287**	**1,513**	**1,668**	**1,930**
Balance sheet and debt metrics											
Net debt	0	-108	136	212	296	115	-9	-269	-462	-625	-834
Working capital	0	-104	-59	394	495	398	351	252	280	284	321
Invested capital	0	85	169	686	695	591	527	479	489	477	499
Capital employed	0	313	275	971	771	709	654	803	976	1,123	1,315
ROE	n.m.	-89.8%	-87.9%	-18.0%	-56.9%	10.0%	7.3%	34.3%	30.7%	20.4%	21.5%
ROIC	n.m.	n.m.	-86.8%	-4.6%	-20.7%	6.4%	8.1%	15.0%	29.1%	24.8%	31.8%
ROCE	n.a.	-25.4%	-50.8%	-2.6%	-23.4%	7.3%	8.8%	11.9%	18.3%	13.5%	14.9%
Net debt/EBITDA	n.m.	1.7	-1.5	-17.0	-3.0	1.6	-0.1	-2.3	-2.3	-3.6	-3.8
Interest coverage	n.a.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.	n.m.
Equity ratio	n.m.	39.7%	20.9%	37.8%	26.5%	30.5%	32.8%	37.0%	42.9%	47.7%	51.2%
Net gearing	n.m.	-56.2%	83.9%	45.2%	109.7%	37.2%	-2.7%	-56.5%	-71.2%	-78.5%	-84.4%

Source: Company data and Nordea estimates

CASH FLOW STATEMENT

SEKm	2011	2012	2013	2014	2015	2016	2017	2018	2019E	2020E	2021E
EBITDA (adj) for associates	**0**	**-62**	**-90**	**-12**	**-100**	**73**	**78**	**117**	**199**	**174**	**219**
Paid taxes	0	0	-2	-4	-21	-13	-10	14	-2	-1	-1
Net financials	0	-8	-11	-28	-4	-15	-25	-46	-3	-3	-3
Change in provisions	0	4	6	-1	119	37	42	66	30	4	38
Change in other LT non-IB	0	-19	19	-4	-16	-13	-3	-68	0	0	0
Cash flow to/from associates	0	-53	0	0	0	0	0	0	0	0	0
Dividends paid to minorities	0	0	0	0	0	0	0	0	0	0	0
Other adj to reconcile to cash flow	-391	77	16	13	-26	-1	28	43	0	0	0
Funds from operations (FFO)	**-391**	**-61**	**-62**	**-36**	**-47**	**68**	**110**	**125**	**223**	**173**	**253**
Change in NWC	0	90	-201	-452	-62	89	36	117	-28	-4	-36
Cash flow from operations (CFO)	**-391**	**29**	**-263**	**-487**	**-109**	**156**	**147**	**242**	**195**	**169**	**216**
Capital expenditure	0	-2	251	739	3	-91	-85	0	-2	-7	-7
Free cash flow before A&D	**-391**	**27**	**-12**	**252**	**-107**	**66**	**61**	**242**	**193**	**163**	**209**
Proceeds from sale of assets	0	13	0	0	22	7	0	0	0	0	0
Acquisitions	0	-6	-108	-72	-4	-1	-2	-6	0	0	0
Free cash flow	-391	34	-120	180	-89	71	60	236	193	163	209
Dividends paid	0	0	0	0	0	0	0	0	0	0	0
Equity issues / buybacks	0	-52	19	342	4	2	0	0	0	0	0
Net change in debt	0	0	0	0	0	0	0	0	0	0	0
Other financing adjustments	0	0	0	0	0	0	0	0	0	0	0
Other non-cash adjustments	391	246	-22	-343	-1	11	-14	26	0	0	0
Change in cash	0	228	-123	179	-86	84	46	262	193	163	209
Cash flow metrics											
Capex/D&A	n.m.	8.7%	n.m.	n.m.	-3.2%	n.m.	n.m.	0.0%	10.3%	30.3%	32.0%
Capex/Sales	0.0%	-0.5%	58.5%	n.m.	0.4%	-12.8%	-13.3%	0.0%	-0.2%	-0.8%	-0.7%
Key information											
Share price year end (/current)	28	50	164	136	63	38	41	59	73	73	73
Market cap.	0	1,430	5,214	4,431	2,164	1,300	1,428	2,064	2,576	2,576	2,576
Enterprise value	0	1,322	5,349	4,643	2,460	1,415	1,420	1,794	2,114	1,951	1,742
Diluted no. of shares, year-end (m)	0.0	28.8	31.8	32.7	34.5	34.6	34.7	35.1	35.1	35.1	35.1

Source: Company data and Nordea estimates

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