

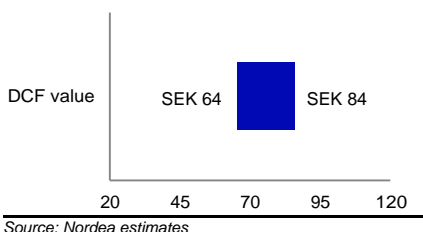
KEY DATA

Stock country	Sweden
Bloomberg	ORX SS
Reuters	ORX.ST
Share price (close)	SEK 74.30
Free Float	89%
Market cap. (bn)	EUR 0.25/SEK 2.61
Website	www.orexo.com
Next report date	02 May 2019

PERFORMANCE



VALUATION APPROACH



ESTIMATE CHANGES

Year	2019E	2020E	2021E
Sales	0%	0%	0%
EBIT (adj)	0%	0%	0%

Source: Nordea estimates

Nordea Markets - Analysts
Klas Pyk
Analyst

Court ruling does not impact earnings potential

On 29 March, Orexo announced that the United States District Court for the District of Delaware has ruled that Actavis' generic versions of Suboxone and Subutex tablets do not infringe Orexo's US Patent 8,454,996. Provided that the ruling stands, this means that Orexo will not receive any compensation from Actavis. We did not include a successful outcome in the litigation trial in our estimates and therefore reiterate our DCF-based fair value range of SEK 64-84 per share.

Litigation costs will decrease as of Q2 2019

In March 2017, Orexo filed a patent infringement action in the United States District Court for the District of Delaware against Actavis. Orexo alleged that Actavis' generic versions of Suboxone and Subutex tablets infringe Orexo's US Patent 8,454,996 (the '996 patent). Two years later, on 29 March 2019, the court ruled in favour of Actavis by concluding that the products does not in fact infringe Orexo's patent. However, Orexo might appeal the court's decision. Orexo has accumulated litigation costs against Actavis of around SEK 100m, which has pressured margins. For example, IP litigation costs in Q4 2018 amounted to SEK 26.4m, pressuring EBITDA margins to 19%, compared with 30% if excluding the litigation costs. Regardless of whether Orexo decides to appeal or not, we expect that litigation costs will decrease significantly from Q2 2019, which in turn will alleviate the pressure on margins.

Underlying earnings potential is not impacted

We did not include a successful outcome in the litigation trial in our model and therefore refrain from making any adjustments to our estimates following the court's decision. We highlight that this case should not be confused with the previous litigation against Actavis regarding Zubsolv in the US, a case that Orexo won, which secured the patent exclusivity of Zubsolv. As such, the ruling does not impact the company's underlying earnings potential. We reiterate our DCF-based fair value range of SEK 64-84 per share.

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	2.5	2.2	1.8
EV/EBIT (adj)	n.m.	27.4	24.7	18.7	12.0	13.1	9.0
P/E (adj)	n.m.	44.7	61.6	15.0	15.1	17.7	13.6
P/BV	8.0	4.2	4.3	4.3	4.0	3.3	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%	7.4%	6.2%	8.0%
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

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	15.1	17.7	13.6
EV/EBITDA (adj)	n.m.	n.m.	n.m.	n.m.	n.m.	19.4	18.2	15.4	10.8	11.4	8.1
EV/EBITA (adj)	n.m.	n.m.	n.m.	n.m.	n.m.	20.4	18.9	15.8	10.9	11.7	8.3
EV/EBIT (adj)	n.m.	n.m.	n.m.	n.m.	n.m.	27.4	24.7	18.7	12.0	13.1	9.0

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	15.1	17.7	13.6
EV/Sales	0.00	4.05	12.46	8.14	3.81	2.01	2.21	2.29	2.47	2.25	1.78
EV/EBITDA	n.m.	n.m.	n.m.	n.m.	n.m.	19.4	18.2	15.4	10.8	11.4	8.1
EV/EBITA	n.m.	n.m.	n.m.	n.m.	n.m.	20.4	18.9	15.8	10.9	11.7	8.3
EV/EBIT	n.a.	n.m.	n.m.	n.m.	n.m.	27.4	24.7	18.7	12.0	13.1	9.0
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%	7.4%	6.2%	8.0%
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	74	74	74
Market cap.	0	1,430	5,214	4,431	2,164	1,300	1,428	2,064	2,608	2,608	2,608
Enterprise value	0	1,322	5,349	4,643	2,460	1,415	1,420	1,794	2,145	1,983	1,774
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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