Photocure – QuickView

1 June 2012

Investment summary: Clearing severe acne

Visonac data showed a clear benefit over placebo in treating severe, inflamed acne. The pustule count fell dramatically and 43% of patients significantly improved their overall appearance. Current treatment is either old, systemic antibiotics or isotretinoin (which has major toxicities). The trial used Nedax: Photocure’s new, full-face red lamp. Photocure can now clarify its Phase III design starting H113. Acne in the US is a 40m prescription market worth $2bn; Photocure aims to sell directly.

Acne: Non-inflammatory and inflammatory

Clinically, non-inflammatory, mild acne comprises blackheads and whiteheads and is treated with tretenoin-based topical preparations like Avita. Inflammatory lesions are more numerous in severe acne due to infection by P. acnes causing pustules and nodules. Severe acne requires a topical combination antibiotic and retinoic acid treatment, or a systemic antibiotic like Solodyn (minocycline) but the acne rebounds once antibiotics cease. Systemic isotretinoin is effective but has severe side effects.

Trial design: A drug and lamp combination

The Phase IIb trial enrolled 153 severe (Grade 4) patients in a two arm design: treatment vs placebo, with four treatments over six weeks. Patients averaged 42 inflamed lesions. The endpoint was the reduction in inflamed lesions after 12 weeks. Both arms received red (632nm) light at 37J/cm² with the new Nedax, full-face-lamp. In the US, Nedax and Visonac would be approved as a combination; in the EU, the drug, a methyl aminolevulinate formulation, can be approved separately.

Visonac data: Significant in inflamed, moderate-severe acne

A statistically significant median reduction of 43.8% in inflamed lesions compared to 26.6% (p=0.003) receiving placebo was achieved (the mean lesion reduction was 16 vs 8). The improvement continued for six weeks after treatment; this is a big advantage over Solody. Non-inflammatory lesions were not affected with a mean drop of 10 in both trial arms (p=0.85). Clinical acne severity dropped to mild/almost clear, that is, at least two grades, in 45% of treated cases vs 25% of controls (p=0.016). Visonac therapy caused mild pain and 12 patients left the study.

Valuation: Phase III completes by H115, market 2016?

This result gives Photocure a robust Phase III product with high success chance and direct sales potential into a major market. Based on Q1 cash, Photocure has an EV of NOK504m (€67m), with a 2012 EV/sales ratio of c 4x on consensus estimates.

Consensus estimates

<table>
<thead>
<tr>
<th>Year end</th>
<th>Revenue (NOKm)</th>
<th>Net profit (NOKm)</th>
<th>EPS (NOK)</th>
<th>DPS (NOK)</th>
<th>P/E (x)</th>
<th>Yield (%)</th>
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<tbody>
<tr>
<td>12/10</td>
<td>177.4*</td>
<td>18.1</td>
<td>0.8</td>
<td>0.0</td>
<td>48.5</td>
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<td>12/11</td>
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<td>(2.2)</td>
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<tr>
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<td>(84.4)</td>
<td>(3.9)</td>
<td>0.0</td>
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<td>N/A</td>
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</table>

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