

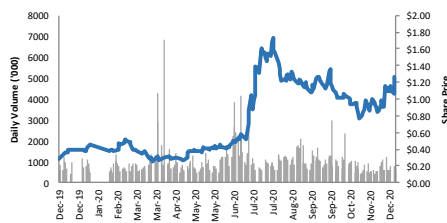
Research Update

December 9, 2020

Rating:	BUY	(unchanged)
Target Price:	\$2.00 ↑	(from \$1.90)
Last Price:	\$1.27	
Ticker:	VPH-CD	

Market Data

Target return (incl. dist.):	57.5%
Dividend/yield:	\$0.00 / 0.0%
Shares outstanding (M):	64.1
Market capitalization (\$M):	81
Enterprise value (\$M):	86
52-week range (\$):	0.25 - 1.86
Fiscal year end:	Oct. 31, 2020
Average weekly volume:	183,716
Currency (unless otherwise indicated):	CAD



Company Profile

Valeo is a specialty pharmaceutical company that acquires or in-licenses both brand name and generic late-development or commercial-stage drugs for sale in Canada and in some cases the US. Valeo has two distinct business segments: branded prescriptions and niche hospital injectable products. Valeo's strategy is focused on three therapeutic areas: neurology, Oncology and hospital products. Valeo chooses to focus on these fields as there are a relatively small number of specialists responsible for written prescriptions which enables the Company to utilize its small salesforce to capture market share.

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Redesca® Receives Health Canada Approval

Event

Valeo announced this morning, before market open the approval of Redesca® from Health Canada.

Highlights

- **Redesca® approval.** Following a comprehensive clinical trial program, Redesca® was approved by Health Canada. We expected the approval of this biosimilar by the end of 2020, and therefore continue to project a launch in Q1/21. Redesca® is the first and only biosimilar enoxaparin that is approved in Canada which creates a great opportunity for Valeo.
- **Redesca® details.** Licensed from Shenzhen Techdow Pharmaceuticals (Private), the largest manufacturer of injectable anticoagulant drugs worldwide, Redesca® is a low molecular weight heparin (LMWH), a biosimilar anticoagulant used to treat blood clots. Redesca® is similar to the three already approved LMWHs in Canada – enoxaparin (Lovenox®), dalteparin (Fragmin®), and tinzaparin (Innohep®). In the clinical trial utilized for the submission to Health Canada, Redesca® demonstrated bioequivalence to Lovenox® in safety and efficacy for treating and preventing deep vein thrombosis and pulmonary embolism, which no other biosimilar has clinical proven. With this, patients can easily convert from Lovenox® to Redesca®. In 2018, total sales of LMWHs exceeded \$200M. The Company estimates peak sales of \$30-40M with 55-60% sales margins.
- **A defence tool against COVID-19.** LMWHs have been increasingly used as a first line defence tool against COVID-19. The World Health Organization (WHO) has issued guidance on the use of LMWHs to help in the prevention of complications in the critical management of severe acute respiratory infections.
- **Model updates.** We have increased the probability of success of Redesca® in our model and updated our multiples based on peer set.

Valuation & Bottom Line

This morning, before market open, Valeo announced the approval of Redesca® by Health Canada. We had expected the approval of Redesca® by the end of 2020, with the official launch in Q1/21. Redesca® is used primarily for treating and preventing deep vein thrombosis and pulmonary embolism. This low molecular weight heparin is the first and only biosimilar approved in Canada. We value Valeo using a sum-of-the-parts (SOTP) valuation to assess each product on its individual timeline to commercial success and use the average of a DCF and EV/EBITDA valuation to arrive at our \$2.00/share target price. We are maintaining our Buy recommendation.

Model Assumptions Overview

For our valuation, we choose to do an SOTP valuation ascribing a value to each of the products within Valeo's pipeline. We have divided out the product pipeline by "base" products and "growth" products in order to assign different probabilities of success (POS) to each.

The Base

Exhibit 1 demonstrates our pro forma marketed, regulatory, and pre-filing products within the base product mix. In total, our probability adjusted revenue stream for the base product mix is \$6M (uninflated) and grows YoY with inflation to peak in F2030 at \$23M. We have maintained a conservative estimate for the POS for both our regulatory and pre-filing products but do recognize there is ample upside once each product successfully moves into commercialization.

Exhibit 1: Base Products Pro Forma

	F2020E	F2021E	F2022E	F2023E	F2024E	F2025E	F2026E	F2027E	F2028E	F2029E	F2030E
Base - Marketed											
<i>Includes M-Eslon, Eth. Sodium (Cdn, US), Ondansetron and Benztropine</i>											
Revenue Uptake Curve	55%	55%	75%	100%	100%	100%	100%	100%	100%	100%	100%
Index	100.0%	100.0%	100.0%	100.0%	102.0%	104.0%	106.1%	108.2%	110.4%	112.6%	114.9%
Pre-Index Revenue at Peak (\$M)	11										
Revenue (\$M)	6	6	8	11	11	11	12	12	12	12	13
Probability Adjusted Revenue (\$M)	6	6	8	10	11	11	12	11	12	12	12
Base - Regulatory											
<i>Includes antibiotic injection, anti-fungal injection, antibiotic injection, opioid addiction</i>											
Revenue Uptake Curve	0%	20%	45%	75%	100%	100%	100%	100%	100%	100%	100%
Index	100.0%	100.0%	100.0%	100.0%	100.0%	102.0%	104.0%	106.1%	108.2%	110.4%	112.6%
Pre-Index Revenue at Peak (\$M)	11										
Revenue (\$M)	-	2	5	8	11	11	11	12	12	12	12
Probability Adjusted Revenue (\$M)	-	2	4	6	8	8	9	9	9	9	9
Base - Pre-filing											
<i>Includes opioid injection, antibiotic injection, anti-hemorrhage injection</i>											
Revenue Uptake Curve	0%	0%	20%	45%	75%	100%	100%	100%	100%	100%	100%
Index	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	102.0%	104.0%	106.1%	108.2%	110.4%
Pre-Index Revenue at Peak (\$M)	5										
Revenue (\$M)	-	-	1	2	4	5	5	5	5	5	6
Probability Adjusted Revenue (\$M)	-	-	0	1	1	2	2	2	2	2	2
Subtotal of Base Probability Adjusted Revenue (\$M)	6	7	12	17	20	21	21	22	22	23	23

Source: IA Securities

The Growth

Valeo's growth product mix includes five branded products that have significant growth potential in the neurology/Central Nervous System (CNS), oncology, and hospital specialty space.

Marketed: Within the growth pipeline there will be marketed products: Onstryv®, Ametop™, Yondelis®, and the recent Health Canada approved, HersperCo™. The Company anticipates sales of its currently marketed growth products to peak at \$17-38M per annum. Redesca®, which is expected to launch in Q1/21. The Company anticipates sales of Redesca® to peak at \$30-40M per annum.

For the growth pipeline, we have done an SOTP valuation and have modelled each product separately.

Redesca®

Following Health Canada approval of Redesca® which was announced today, we have increased the probability of success (POS) to 100% (previously 70%). Lovenox (Enoxaparin) is a low molecular weight heparin used to prevent deep vein thrombosis and is typically sold for ~\$260 per injectable¹. Assuming that Redesca® as a biosimilar is sold at a 25% discount to Lovenox, we can assume a price of \$195 per injectable. Based on company guidance, we estimated a conservative market size of 200M doses administered annually to arrive at our probability adjusted revenue that peaks in sales at \$34M.

Exhibit 2: Redesca® Pro Forma

Growth - Redesca®			F2020E	F2021E	F2022E	F2023E	F2024E	F2025E	F2026E	F2027E	F2028E	F2029E	F2030E
Market Size	200,000,000	1.00%	200,000,000	202,000,000	204,020,000	206,060,200	208,120,802	210,202,010	212,304,030	214,427,070	216,571,341	218,737,055	220,924,425
Market Share Uptake Curve			0.00%	0.02%	0.04%	0.08%	0.08%	0.08%	0.08%	0.08%	0.08%	0.08%	0.08%
Market Share (patients)			-	40,400	81,608	164,848	166,497	168,162	169,843	171,542	173,257	174,990	176,740
Price Assumption (\$)	195		195	195	195	195	195	195	195	195	195	195	195
Revenue (\$M)			-	8	16	32	32	33	33	33	34	34	34
Probability Adjusted Revenue (\$M)	100%		-	8	16	32	32	33	33	33	34	34	34

Source: iA Securities

Exhibit 3: VPH Summary P&L

Summary P&L			F2020E	F2021E	F2022E	F2023E	F2024E	F2025E	F2026E	F2027E	F2028E	F2029E	F2030E
Base - Marketed			6	6	8	10	11	11	11	11	12	12	12
Base - Regulatory			-	2	4	6	8	8	9	9	9	9	9
Base - Pre-filing			-	-	0	1	1	2	2	2	2	2	2
Subtotal of Growth Probability Adjusted Revenue (\$M)			6	7	12	17	20	21	21	22	22	23	23
Growth - Onstryv®			1.00	2.65	5.06	8.93	10.10	10.92	11.58	11.89	12.02	11.86	11.64
Growth - Yondelis®			0.34	1.03	2.48	2.60	3.28	4.31	3.69	3.95	3.88	4.16	4.05
Growth - Ametop™			0.21	0.81	0.87	0.94	1.04	1.15	1.26	1.39	1.53	1.69	1.86
Growth - Hesperco™			0.45	4.73	8.93	10.42	16.41	17.57	18.82	20.16	20.15	20.04	19.81
Growth - Redesca®			-	7.88	15.91	32.15	32.47	32.79	33.12	33.45	33.79	34.12	34.46
Subtotal of Growth Probability Adjusted Revenue (\$M)			2	17	33	55	63	67	68	71	71	72	72
Total Revenues (Probability Adjusted)*			8	24	45	72	84	88	90	93	94	95	95
Cost of Goods Sold	55.0% gross margin		3	11	20	33	38	39	40	42	42	43	43
SG&A	5.0% growth		5.0	6.0	6.8	6.3	7.1	6.6	7.4	6.9	7.8	7.3	8.2
Operating Income			(1)	7	18	34	39	42	42	44	44	45	44
Financing and Other Expense			0.5	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Pre-tax income (loss)			(1)	7	18	33	39	42	42	44	44	45	44
Income Tax	25%		-	-	-	8	10	10	10	11	11	11	11
Net Income (loss)			(1)	7	18	25	29	31	31	33	33	33	33

*Total Revenue includes interest revenue on cash balances

Source: iA Securities

Exhibit 4: VPH Summary Cash Flow

Summary Cash Flow			F2020E	F2021E	F2022E	F2023E	F2024E	F2025E	F2026E	F2027E	F2028E	F2029E	F2030E
NOPAT			(1.2)	7.1	17.8	25.0	29.1	31.2	31.4	33.0	32.7	33.5	33.0
% margin			-16%	29%	39%	35%	35%	36%	35%	36%	35%	35%	35%
(-/+ change in NWC	0.5% growth		(3.0)	(0.1)	(0.2)	(0.4)	(0.4)	(0.4)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)
(+) D&A			0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Operating Cash Flow			(3.8)	7.3	18.0	25.1	29.0	31.1	31.4	32.9	32.6	33.4	32.9
(-) Capex			0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Investing Cash Flow			0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
(+/-) Debt Issuance / Repayment			10.2	0.0	-1.7	-2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(+/-) Equity Issuance / Dividends			0.0	0.0	0.0	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing Cash Flow			10.2	-	(1.7)	-	-	-	-	-	-	-	-
Opening Cash			-	6.5	13.9	30.3	55.4	84.6	115.8	147.3	180.3	213.0	246.6
Closing Cash			6.5	13.9	30.3	55.4	84.6	115.8	147.3	180.3	213.0	246.6	279.6
Net Cash Flow			6.5	7.4	16.4	25.2	29.1	31.2	31.5	33.0	32.7	33.5	33.0

Source: iA Securities

Valuation & Recommendation

Valuation Summary

Our target price is determined by the average of our DCF and EV/EBITDA valuation methods.

DCF Valuation. We have valued the future cash flows associated with the probability adjusted revenue streams through F2030 for the base product pipeline and each of the products within the growth product pipeline. Using this probability adjusted revenue streams and applying a 10% discount rate, we can derive the PV of Free Cash Flow arriving at a price per share of \$2.40.

EV/EBITDA Valuation. Given the unpredictability of the timing associated with various program milestones, we have chosen to also do an EV/EBITDA valuation based on the average annual EBITDA through F2030 which enables us to approach our valuation agnostic to timing uncertainty. Exhibit 6 highlights Valeo's comparable companies, which are primarily matured specialty pharma names with repeatable cash flows and garner an 8.0x 2021 EV/EBITDA multiple. On this basis, we have used the forward average EBITDA (next 10 years) and an 8.0x EV/EBITDA multiple discounted to present to derive a price per share of \$1.57. We have lowered our multiple based on peers set.

Exhibit 5: DCF Valuation & EV/EBITDA Valuation

DCF Valuation (\$M)		F2020E	F2021E	F2022E	F2023E	F2024E	F2025E	F2026E	F2027E	F2028E	F2029E	F2030E
Applied discount rate	10.00%											
Discount period	12/9/2020	(0.11)	0.89	1.89	2.89	3.89	4.89	5.89	6.89	7.89	8.89	9.89
Discount factor		1.01	0.92	0.84	0.76	0.69	0.63	0.57	0.52	0.47	0.43	0.39
Unlevered Free Cash Flow		(3.7)	7.4	18.1	25.2	29.1	31.2	31.5	33.0	32.7	33.5	33.0
Discounted Free Cash Flow		(3.8)	6.8	15.1	19.1	20.1	19.6	18.0	17.1	15.4	14.4	12.9
PV of Free Cash Flow	154.66											
Less: Net Debt	\$0.7											
Equity Value	154.00											
Shares Outstanding	64.08											
Price Per Share (\$/sh)	2.40											
EV/EBITDA Valuation (\$M)		F2020E	F2021E	F2022E	F2023E	F2024E	F2025E	F2026E	F2027E	F2028E	F2029E	F2030E
EBITDA		(0.8)	7.5	18.2	33.8	39.1	42.0	42.3	44.4	44.0	45.1	44.4
Enterprise Value (8.0x average fwd EBITDA)	261.68											
Less: Net Debt	\$0.7											
Equity Value	261.01											
Shares Outstanding	64.08		181.85									
FV Price Per Share (\$/sh)	4.07											
PV Price Per Share (\$/sh)	1.57											
Average Price Per Share (\$/sh)	1.99											
Target (\$/sh)	2.00											

Source: iA Securities

The average of the two valuations provides for a **\$2.00/share target price**.

Exhibit 6: VPH Comparables

Company	Ticker	Close	Mkt Cap (\$M)	Debt+Pref (\$M)	Ent. Value (\$M)	EBITDA (\$M)			EV/EBITDA			Revenue			EV/Revenue		
						2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E	2019A	2020E	2021E
Cipher Pharmaceuticals Inc	CPH-T	0.86	20	(3)	17	7.8	12.4	6.8	2.2x	1.4x	2.5x	22	20	15	0.8x	0.8x	1.2x
Knight Therapeutics Inc	GUD-T	5.32	690	(353)	337	(6.5)	12.9	22.5	-51.6x	26.1x	15.0x	39	192	206	8.7x	1.7x	1.6x
BioSyst Inc.	RX-V	6.95	90	(22)	68	5.7	6.0	6.9	11.9x	11.4x	9.9x	22	22	26	3.2x	3.1x	2.7x
Aequus Pharmaceuticals Inc.	AQS-V	0.11	10	2	12	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Nuvo Pharmaceuticals Inc	NRI-T	0.85	10	91	101	26.1	26.6	22.6	3.9x	3.8x	4.5x	66	71	67	1.5x	1.4x	1.5x
Acerus Pharmaceuticals Corp	ASP-T	0.03	50	(10)	40	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Totals / Average			870	(296)	570	30	60	60	-8.4x	10.7x	8.0x	149	306	313	3.5x	1.8x	1.7x
Valeo Pharma Inc.	VPH-CD	1.27	80.00	5.7	85.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Source: Refinitiv, iA Securities

Investment Recommendation Rating System

Strong Buy:	Expected to provide a substantial return over the next 12 months, with a lower level of risk than comparable investments.
Buy:	Expected to provide a reasonably positive return over the next 12 months.
Speculative Buy:	Expected to provide a positive return over the next 12 months, but with a high level of risk, or based on a future uncertain event.
Hold:	Expected to remain in a trading range near the current share price for the next 12 months.
Sell:	Expected to deliver a negative return over the next 12 months.
Under Review:	Currently available information is inadequate to provide an investment rating.
Tender:	Investors should tender their shares to the current offer.

Company Related Disclosures

Issuer Company	Ticker	Exch.	Disclosures
Valeo Pharma Inc.	VPH	CD	3

See legend of Disclosures on next page.

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