

BioLight Life Sciences

BioLight to raise up to NIS12m in rights offering

Rights offering

Pharma & biotech

BioLight Life Sciences is engaging in a shareholder rights offering of up to NIS12m (if fully subscribed) to strengthen its balance sheet. While BioLight had NIS20.2m net cash at Q117, most was held at subsidiaries, and only NIS4.7m was directly available to the parent firm; hence the imminent funding need. The four largest shareholders (representing 55%) will participate to some degree in the rights offering. If fully subscribed, we estimate the rights offering can provide funding into at least Q417. Our model, which does not yet include the rights offering or the potential IOptima sale to a Chinese investor, derives an rNPV valuation of NIS92.9-103.4m.

Year end	Revenue (NISm)	PBT* (NISm)	EPS* (NIS)	DPS (NIS)	P/E (x)	Yield (%)
12/15	1.4	(25.1)	(6.96)	0.0	N/A	N/A
12/16	2.1	(26.3)	(5.55)	0.0	N/A	N/A
12/17e	4.8	(27.1)	(9.01)	0.0	N/A	N/A
12/18e	11.1	(33.9)	(12.09)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Continuing to work towards completing IOptima sale

In April 2017, BioLight's IOptima subsidiary (of which BioLight holds a 70% ownership stake) signed a non-binding term sheet, calling for it to be sold to Chengdu Kanghong Pharma. Chengdu had a 60-day exclusivity clause restricting IOptima from entering potential sale discussions with other prospective buyers. While this window should expire imminently (mid-June 2017), BioLight management remains involved with ongoing discussions to finalise a sale transaction with Chengdu, and suggests the expiry of the exclusivity period should not diminish the likelihood of the completion or finalisation of the Chengdu deal.

IOptima Q117 revenue below our forecasts

BioLight reported Q117 revenue of NIS0.384m, an EBITDA loss of NIS6.3m, and an adjusted net loss per share of NIS1.69, versus our respective estimates of NIS0.85m, and losses of NIS5.3m (EBITDA) and NIS2.06 per share (net). We estimate that IOptima Q117 revenue was c NIS0.25-0.30m, compared to our NIS0.85m forecast. While IOptima revenue declined year-on-year, the number of IOptiMate treatment procedures increased 86% vs Q116. We estimate that product sales timing differences could help account for this difference, and that in the longer term IOptima sales growth rates should correlate more positively with procedure volume growth. Hence, we view the yearly IOptima revenue decline in Q117 as temporary.

Valuation: Risk-adjusted rNPV of NIS92.9-103.4m

Following minor market and forex changes, we obtain an rNPV of NIS92.9m-103.4m (vs NIS98.5-106.9m, previously). Our base case model continues to forecast that BioLight will need to raise NIS30m in both 2017 and 2018 to maintain its operations and development strategy. For modelling purposes, we assign these financings to long-term debt. We have not adjusted our model for the potential IOptima sale or for the rights offering (as the subscription rate is unknown).

19 June 2017

Price* **NIS12.69**

Market cap **NIS33m**

NIS3.52/US\$

*Priced as at 14 June 2017

Net cash (NISm) at 31 March 2017 20.2

Shares in issue 2.6m

Free float 45%

Code BOLT

Primary exchange TASE

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 0.3 17.8 (5.6)

Rel (local) 1.1 16.6 (10.4)

52-week high/low NIS14.9 NIS8.4

Business description

Based in Israel, BioLight Life Sciences is an emerging ophthalmic company focused on the development and commercialisation of products and product candidates that address ocular conditions. Lead products IOptiMate and VS-101 are directed towards the treatment of glaucoma

Next events

Decision on IOptiMate regulatory strategy 2017

Eye-D VS-101 Phase I/IIa data H217

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BioLight plans a rights offering

In early June 2017, BioLight announced that it is engaging in a shareholder rights offering of up to NIS12m (if fully subscribed) in order to raise funds and strengthen its balance sheet. The firm faces an imminent need to raise additional funds, as although it finished Q117 with NIS20.2m in net cash (NIS19.8m cash and equivalents and NIS0.4m in short-term deposits), most of this (NIS12.5m) is held at the IOptima subsidiary. With NIS3.1m held at its other subsidiaries (including Micromedic), the parent company (BioLight) has c NIS4.7m in net cash available at Q117. As BioLight does not intend to invoke a fund transfer from its subsidiaries, we estimate these funds are likely only sufficient to maintain operations into mid-2017. If fully subscribed, we estimate the rights offering could provide funding into at least Q417.

We believe the rights plan could be potentially less dilutive to existing shareholders than a conventional equity offering, as it provides existing holders with the ability to maintain their proportionate stake in the company at similar terms to other participants in the offering (and any discounts embedded in the rights strike price are proportionately shared among existing shareholders). Each BioLight shareholder as of 11 June 2017 (ex-rights date) received rights enabling them, for every 10 BioLight shares held, to be able to acquire four new shares at a price of NIS11.20 per share (or NIS44.80 in total, for four new shares). The exercise price is at an 11.7% discount to the 14 June 2017 closing price on TASE at NIS12.69 per share.

The rights are tradeable on TASE for one day only (as per TASE regulation), on 21 June 2017, and the expiration date for rights exercise is 26 June 2017. The primary potential disadvantage with any rights offering is that there is no certainty as to whether the deal will be fully subscribed or exercised. If participation is well under 100%, the company may need to engage in another round of financing (such as a public offering, another rights offering, debt financing, or other) to raise the desired amount of funds. To date, the four largest BioLight shareholders (which collectively own about 55% of outstanding shares) have indicated that they will participate in the offering to some degree, but they have not disclosed to what extent (ie what proportion of their holdings and rights will be exercised).

Parties aim to conclude IOptima sale as exclusivity period ends

On 19 April 2017, BioLight's IOptima subsidiary (of which BioLight holds a 70% ownership stake) signed a non-binding term sheet, which calls for it to be sold to a Chinese company, Chengdu Kanghong Pharma. As detailed in our [2 May 2017 research note](#), the proposed transaction is arranged in several tranches, whereby existing IOptima shareholders (eg BioLight) could begin receiving cash proceeds from the sale approximately six months from the formal signing of the transaction.

As a reminder, on signing of a formal transaction, initially Chengdu would invest \$7m in IOptima for a 19% stake in the company. Six months after this initial investment, Chengdu would acquire additional shares in IOptima from the existing shareholders for \$17.2m (about NIS62m), thereby raising its stake to 60% (this would value IOptima at about \$42m at that point). This amount will be allocated to IOptima shareholders on a pro rata basis and according to the preferences assigned to different classes of IOptima shares. While BioLight owns 70% of IOptima equity, the different IOptima share classes and their assigned preferences have not been disclosed, and hence the potential allocation to BioLight (of this \$17.2m payment) has not yet been disclosed.

In two further stages, scheduled for 2019 and 2021, respectively, Chengdu would acquire the remaining shares in IOptima (acquiring 20% in each stage) using a pricing formula dependent on

IOPTima's profitability (and that is calculated separately for each stage), and that can reflect an IOPTima valuation of between \$40.5m to \$56.25m.

When the term sheet was first signed, Chengdu had a 60-day exclusivity clause restricting IOPTima from entering potential sale discussions with other prospective buyers. This window should expire imminently (mid-June 2017), after which IOPTima could potentially entertain other offers. BioLight management indicates that as of the writing of this note, it is involved with ongoing discussions and is continuing to work with Chengdu to finalise a sale transaction, and that the expiry of the 60-day exclusivity period should not diminish the likelihood of the completion or finalisation of the Chengdu deal.

Q117 revenue below Edison forecasts on lower IOPTima revenue

BioLight reported Q117 financial results in May 2017, with Q117 revenue of NIS0.384m, an EBITDA loss of NIS6.3m, and an adjusted net loss per share of NIS1.69. The adjusted net loss calculation excludes NIS0.24m in other/non-specified expenses and a NIS0.17m expense item relating to the company's share of losses of an affiliate accounted for as equity. Including these amounts, the reported IFRS net loss to equity holders was NIS1.66 per share. Both these net loss figures (IFRS reported and adjusted) also remove NIS3.21m of loss reflecting the non-controlling interest, including those attributed to the Micromedic subsidiary (BioLight owns 34% of Micromedic). The total reported Q117 net loss, including the Micromedic non-controlling interest, was NIS7.55m (NIS2.89 per share).

While BioLight consolidates the financial results of the Micromedic subsidiary in its financials, our forecasts do not include projections or considerations for Micromedic. Overall, we had Q117 forecasts of NIS0.85m in revenue, a NIS5.3m EBITDA loss, and a net loss of NIS2.06 per share.

While BioLight reported Q117 revenue of NIS0.384m, this included NIS0.075m from the Micromedic unit. We estimate that the large majority of the remaining NIS0.31m revenue reflected IOPTima-related sales (including capital equipment sales and per-procedure recurring revenue). We believe that a small proportion of Q117 revenue (proportion undisclosed by the company) was recognised from the analysis services agreement entered by DiagnosTear (one of BioLight's subsidiaries, with an 82% ownership interest) with an undisclosed pharmaceutical company in February 2017. Under their agreement, the undisclosed partner will use DiagnosTear's TeaRx multi-parameter diagnostic assays as part of a clinical trial for dry eye syndrome (DES). BioLight indicates this entire contract agreement should provide revenue in the hundreds of thousands of Israeli shekels range, and a positive gross margin, over the term of the services agreement (which we estimate to be likely to be within 12 months); a small proportion of this total contract was recognised in Q117.

IOPTima revenue decreased year-on-year

We estimate that IOPTima Q117 revenue was approximately NIS0.25-0.3m, which is well below our Q117 estimate of NIS0.85m. As a point of comparison, Q116 BioLight revenue (of which IOPTima revenue reflected the large majority) was NIS0.759m. Despite lower IOPTima revenue compared to the prior year, BioLight indicates that the number of treatment procedures performed by IOPTiMate devices (sold and marketed by IOPTima) increased 86% year-on-year in Q117 to about 429. We estimate product sales timing differences account for part of this difference, as well as differing product sales models by territory or channel (some sales arrangements attribute a higher component to capital equipment sales and others to per-procedure fees, etc). Nonetheless, over a longer time horizon (rather than quarterly), we believe IOPTima revenue growth rates should correlate more positively with growth rates in procedure volumes. Hence, we view the Q117 yearly revenue decline for IOPTima as a temporary phenomenon, and are not lowering our longer-term IOPTima sales forecasts at this time.

Eye-D VS-101 data expected in H217

BioLight announced in April 2017 that the last patient in the ongoing Phase I/IIa study of Eye-D VS-101 (an in-office insertable product that provides the controlled release of latanoprost for treating glaucoma) has completed his treatment, and it expects to provide results in H217. If Eye-D VS-101 results are positive, the company then plans to complete a larger scale Phase IIb trial and then a pivotal Phase III under the 505(b)(2) regulatory pathway. Under 505(b)(2), the applicant may rely on much of the existing data already established on latanoprost, and hence the pivotal study would likely be shorter and less costly than what would be required for a new drug application (NDA) or premarket approval (PMA). Our model continues to assume a 505(b)(2) pathway, with BioLight spending c \$8m on VS-101 R&D across 2017 and 2018, before partnering the product prior to starting a Phase III study (funded by the partner) in late 2018.

Financials

Given the Q117 operating cash burn rate of NIS7.15m and available net cash to BioLight of NIS4.7m, we estimate that the NIS12m rights offering, if fully subscribed, would provide BioLight with funding into at least Q417. This runway could potentially be sufficient to allow for the closing or finalisation of the IOptima sale to Chengdu. The currently proposed terms of this transaction (term sheet) values IOptima in its current form at above \$30m (given that the first step of the proposed transaction involves a \$7m investment into IOptima for a 19% stake in the company). Hence, if the deal is finalised, there may be a positive upward response to BioLight's share price, given that its entire market capitalisation and enterprise value at present are lower than the implied valuation of BioLight's IOptima stake (70%) under the terms applied to the current term sheet offer. Hence, while in our view, the rights offering does not appear to extend BioLight's runway into 2018, we believe that the company anticipates an uplift in its share price in the near future (upon a conclusion of the IOptima sale, if it is successful), at which another financing round may be envisioned.

As stated earlier, BioLight finished Q117 with NIS20.2m in net cash (NIS19.8m cash and equivalents and NIS0.4m in short-term deposits), but given that NIS12.5m is held at IOptima and NIS3.1m held at its other subsidiaries (including Micromedic), the parent company (BioLight) has c NIS4.7m in net cash available at Q117. We continue to model that BioLight will raise a total of NIS30.0m in both 2017 and 2018 to sustain its operations and R&D projects. We also assume a NIS25.0m raise in 2019. For modelling purposes, we assign these financings to long-term debt.

Given the uncertainty as to whether the Chengdu transaction will proceed, we have not adjusted our model or valuation for this potential transaction (our model continues to assume that IOptima will operate as a separate, BioLight-controlled entity). Further, we have not adjusted for the rights offering as it is unclear whether the rights would be fully subscribed. We continue to assume that IOptiMate ex-US sales will account for the majority of near-term BioLight revenue, and that R&D and other operating costs will exceed sales growth in the near term. We have not materially changed our G&A and R&D estimates for the remainder of 2017 and for 2018.

Valuation

As we do not include completion of the Chengdu transaction in our forecasts, our BioLight valuation continues to include the prospects for IOptiMate, Eye-D VS-101 and TeaRx. We apply a risk-adjusted net present value (rNPV) model with a 12.5% cost of capital. For each of these projects, we provide a weighted rNPV based on BioLight's ownership in the associated subsidiary company. For IOptiMate, we continue to apply a lower probability of success for our US forecasts than our ex-US market forecasts, as the product has yet to receive US regulatory clearance, while it is already

cleared for sale in Europe and China. Eye-D VS-101 remains the largest potential source of revenue for the company and our 20% probability of success estimate reflects its early clinical development stage. After adjusting our forecasts to reflect Q117 results and adjusting forex assumptions (and the public market value of held Micromedic shares), we now obtain an rNPV of NIS92.9-103.4m (down from NIS98.5-106.9m, previously).

Exhibit 1: BioLight upcoming catalysts

Event	Timing
Guidance from FDA on regulatory pathway for IOPtiMate	2017
VS-101 Phase I/IIa data	H217
TeaRx 510(k) clearance and US launch	H218

Source: BioLight Life Sciences reports

Exhibit 2: BioLight Life Sciences Ltd rNPV assumptions

Product contributions (net of R&D costs)	Indication	rNPV (NISm)	rNPV/share (NIS)	Probability of success	Launch year	Peak sales (US\$m)
IOPtiMate for ex-US Markets (70% weighted)	Glaucoma	90.1	34.56	70.0%	2015	\$21.4 in 2023
IOPtiMate in US Market (70% weighted)	Glaucoma	24.1	9.23	40.0%	2021	\$22.6 in 2026
VS-101 (97% weighted)	Glaucoma	79.0	30.31	20.0%	2020	\$69.8 in 2026
TeaRx (80% weighted)	DES diagnosis	25.3	9.72	50.0%	2017	\$19.8 in 2025
Corporate costs & expenses						
SG&A expenses		(56.1)	(21.52)			
Net capex, NWC & taxes		(73.8)	(28.32)			
Value of Micromedic shares (MCTC, TASE)*		4.6	1.78			
Total rNPV		93.2	35.75			
Net cash (debt) (Q117)		20.2	7.76			
Total equity value**		113.4	43.51			
FD shares outstanding (000) (Q117)		2,607				

Source: Edison Investment Research. Note: *5.29m shares held with 14 June 2017 price of NIS0.879 per share; **Excludes the impacts from any dilution resulting from any future equity offerings.

Exhibit 3: Financial summary

	NIS000s	2014	2015	2016	2017e	2018e	2019e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS							
Revenue		941	1,391	2,111	4,810	11,086	22,911
Cost of Sales		(538)	(734)	(996)	(2,257)	(4,989)	(10,310)
Sales, General & Administrative		(8,529)	(11,956)	(10,360)	(9,314)	(9,539)	(12,123)
Research & Development		(18,560)	(13,045)	(10,982)	(17,794)	(27,800)	(21,800)
EBITDA		(26,686)	(24,344)	(20,227)	(24,556)	(31,241)	(21,322)
Depreciation		(3,884)	(1,306)	(3,190)	(1,616)	(2,400)	(2,400)
Amortization		0	0	0	0	0	0
Operating Profit (before exceptionals)		(30,570)	(25,650)	(23,417)	(26,173)	(33,641)	(23,722)
Exceptionals		(5,886)	(2,475)	(7,357)	241	0	0
Other		0	0	0	0	0	0
Operating Profit		(36,456)	(28,125)	(30,774)	(25,932)	(33,641)	(23,722)
Net Interest		448	543	(2,836)	(946)	(253)	(879)
Profit Before Tax (norm)		(30,122)	(25,107)	(26,253)	(27,118)	(33,895)	(24,601)
Profit Before Tax (FRS 3)		(36,008)	(27,582)	(33,610)	(26,877)	(33,895)	(24,601)
Tax		0	0	0	0	0	0
Profit After Tax and minority interests (norm)		(17,216)	(16,784)	(14,467)	(23,481)	(31,524)	(24,038)
Profit After Tax and minority interests (FRS 3)		(23,102)	(19,259)	(21,824)	(23,240)	(31,524)	(24,038)
Average Number of Shares Outstanding (m)		1.9	2.4	2.6	2.6	2.6	2.6
EPS - normalised (NIS)		(8.91)	(6.96)	(5.55)	(9.01)	(12.09)	(9.22)
EPS - normalised and fully diluted (NIS)		(8.91)	(6.96)	(5.55)	(9.01)	(12.09)	(9.22)
EPS - (IFRS) (NIS)		(11.96)	(7.98)	(8.37)	(8.92)	(12.09)	(9.22)
Dividend per share (NIS)		0.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET							
Fixed Assets		8,002	9,832	5,282	7,953	13,792	17,792
Intangible Assets		7,106	6,869	3,910	3,910	3,910	3,910
Tangible Assets		896	2,963	1,372	4,043	9,882	13,882
Current Assets		32,432	53,439	30,031	32,239	20,311	18,111
Short-term investments		6,408	385	417	381	381	0
Cash		22,196	50,697	25,057	29,621	15,443	9,040
Other		3,828	2,357	4,557	2,237	4,487	9,071
Current Liabilities		(6,552)	(6,605)	(6,988)	(5,460)	(895)	(1,733)
Creditors		(6,552)	(6,605)	(6,988)	(5,460)	(895)	(1,733)
Short term borrowings		0	0	0	0	0	0
Long Term Liabilities		(8,144)	(9,605)	(11,915)	(41,617)	(71,617)	(96,617)
Long term borrowings		0	0	0	(30,000)	(60,000)	(85,000)
Other long term liabilities		(8,144)	(9,605)	(11,915)	(11,617)	(11,617)	(11,617)
Net Assets		25,738	47,061	16,410	(6,885)	(38,408)	(62,446)
CASH FLOW							
Operating Cash Flow		(27,435)	(24,580)	(24,106)	(22,195)	(35,686)	(24,125)
Net Interest		448	543	(2,836)	(946)	(253)	(879)
Tax		0	0	0	0	0	0
Capex		(402)	(182)	(370)	(4,386)	(8,239)	(6,400)
Acquisitions/disposals		0	(837)	(227)	0	0	0
Financing		38,374	47,320	2,554	0	0	0
Net Cash Flow		10,985	22,264	(24,985)	(27,527)	(44,179)	(31,403)
Opening net debt/(cash)		(17,901)	(28,604)	(51,082)	(25,474)	(2)	44,176
HP finance leases initiated		0	0	0	0	0	0
Other		(282)	214	(623)	2,055	0	0
Closing net debt/(cash)		(28,604)	(51,082)	(25,474)	(2)	44,176	75,579

Source: BioLight Life Sciences reports, Edison Investment Research. Note: The reported financial results consolidate Micromedic's financials, and forecast financial results (2017e and beyond) do not include Micromedic operations.

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