EDISON

BioLight Life Sciences

Financial update

IOPtiMate sales slow as Asian distribution on hold

Pharma & biotech

BioLight reported H117 results in late August and IOPtiMate revenue was lower than expected, due to a pause in distributor activity in China. This interruption may last until there is a definitive conclusion in the pending Chengdu transaction. We have decreased our near-term IOPtiMate forecasts and extended the time runway estimated to achieve our peak sales targets for the product. We now derive an rNPV of NIS109.7-130.7m (down from NIS121.6-135.7m, previously).

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	2.2	(30.1)	(6.88)	0.0	N/A	N/A
12/18e	8.9	(34.6)	(8.81)	0.0	N/A	N/A

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

BioLight reports H117 results

BioLight recently reported H117 revenue of NIS0.574m, an EBITDA loss of NIS13.5m, and a reported net loss of NIS15.32m. As Q117 results were already known, we infer Q217 revenue of NIS0.190m, an EBITDA loss of NIS7.07m, and a reported net loss of NIS7.78m. The Q217 net loss figure included NIS3.04m in losses attributable to non-controlling interests. We had expected Q217 revenue (derived from IOPtiMate sales) of NIS1.16m and an EBITDA loss of NIS5.14m.

IOPtima distribution activities in Asia on hold

IOPtiMate's Q217 revenue was well below our expectations, as H117 BioLight revenue declined 32% y-o-y to NIS0.574m. Management explains that the current primary distributor for China has halted most of its continuing sales efforts, due to IOPtima's ongoing negotiations for it to be sold to Chengdu Kanghong Pharma (which would become the new distributor in Asia if the sale were to proceed). Hence, a majority of IOPtima sales in China are on hold pending the result of the IOPtima sale negotiations with Chengdu. If the negotiations terminate without a transaction, the current distributor is expected to recommence sales efforts.

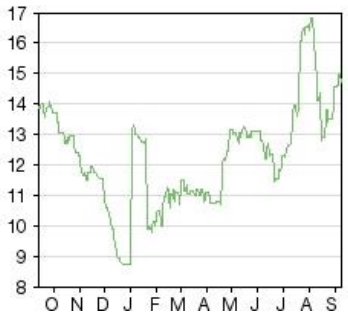
Valuation: Risk-adjusted rNPV of NIS109.7-130.7m

Eye-D VS-101 remains the largest potential source of revenue for the company, and we continue to use a 30% probability of success estimate for this project. After reducing our near-term IOPtiMate estimates, extending the duration needed to achieve peak sales, and adjusting forex assumptions (and the public market value of held Micromedic shares), we now obtain an rNPV of NIS109.7-130.7m (down from NIS121.6-135.7m). BioLight's H117 net cash position of NIS25.5m (with NIS13.5m held at the parent company and the remainder at its subsidiaries) should be sufficient for the company to maintain operations into Q417. Our base case model assumes that BioLight will raise NIS18m in H217 and NIS30m in 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 to Chengdu.

12 September 2017

Price*	**NIS14.72**
Market cap	**NIS54m**
	NIS3.58/US$
*Priced as at 08 September 2017	
Net cash (NISm) at H117	25.5
Shares in issue	3.6m
Free float	43%
Code	BOLT
Primary exchange	TASE
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(8.5)	20.7	3.5
Rel (local)	(8.0)	24.0	7.4
52-week high/low	NIS16.8		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 US regulatory strategy	H217

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BioLight reports H117 financials

BioLight reported H117 financials in late August 2017; H117 revenue was NIS0.574m, the EBITDA loss was NIS13.5m, and the reported net loss was NIS15.32m. Given that BioLight had reported Q117 results in May 2017, we infer Q217 revenue of NIS0.190m, an EBITDA loss of NIS7.07m, and a reported net loss of NIS7.78m. This Q217 net loss figure included NIS3.04m in losses attributable to non-controlling interests, including those attributed to the Micromedic subsidiary (BioLight owns 34% of Micromedic). Excluding the non-controlling interests, the Q217 net loss attributable to BioLight shareholders was NIS4.74m.

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 expected Q217 BioLight revenue of NIS1.16m, an EBITDA loss of NIS5.14m, and a net loss of NIS5.27m.

While BioLight does not break down its revenue by product line or subsidiary, we estimate that as in prior quarters, the large majority of reported Q217 revenue reflected IOPtima-related sales (including capital equipment sales and per-procedure recurring revenue). We believe that a small proportion of Q217 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 could last into early 2018). BioLight recently also confirmed that as part of its TeaRx development plans, it has started recruitment for a European TeaRx validation study, which could end by YE17 and would be used to support a regulatory filing for the approval of this diagnostic test in Europe.

IOPtima revenue fell below expectations as distributor paused sales efforts

We estimate that IOPtima Q217 revenue was approximately NIS0.15-0.19m, which is well below our Q117 estimate of NIS1.16m. In Q216 BioLight reported revenue (of which IOPtima revenue reflected the large majority) of NIS0.09m. IOPtiMate sales growth has stalled recently, as shown by H117 BioLight revenue declining 32% y-o-y to NIS0.574m. Management explains that the current primary distributor for China has halted most of its continuing sales efforts, due to IOPtima's ongoing negotiations for it to be sold to Chengdu Kanghong Pharma (which would become the new distributor in China if the sale were to proceed). If a sale occurs, then Chengdu will start distribution activities; if the negotiations terminate without a transaction, the current distributor is expected to recommence sales efforts. Altogether, we estimate that a considerable proportion of ex-US IOPtima sales are currently on hold pending the result of the IOPtima sale negotiations with Chengdu.

Potential IOPtima sale to Chengdu still under consideration

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 would 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 (20% of IOPtima in each stage). The price to be paid by Chengdu in each of these two stages (each corresponding to a purchase of 20% of IOPtima's equity) would be determined using a pricing formula that is dependent on IOPtima's profitability at the time (and that price would be calculated separately for each of these two stages), and that can correspond to an IOPtima firm valuation of between $40.5m to $56.25m. We believe BioLight is continuing to work with Chengdu to finalise a formal transaction, but as of yet, there is still no assurance that this process will be completed.

Financials

BioLight's shareholder rights offering (described in our 19 June 2017 update note) was subscribed at a 96% level, which led to the sale of 1.028m new shares at NIS11.20 per share, and gross proceeds of NIS11.5m. The offering increased BioLight's shares outstanding by 39%. The completion of the rights offering helped fulfil the firm's imminent need to raise additional funds, as it finished Q217 with NIS25.5m in net cash (NIS25.1m cash and equivalents and NIS0.4m in short-term deposits). However, NIS11.6m of this cash is held at IOPtima and other BioLight subsidiaries (NIS9.9m at IOPtima, NIS1.3m at Micromedic and NIS0.5m at other subsidiaries), and BioLight prefers to avoid inter-corporate cash transfers to the parent company. Hence, the parent company (BioLight) only had c NIS13.5m in net cash available at Q217.

BioLight had an H117 operating cash burn rate (including all subsidiaries) of NIS12.8m, and we estimate a similar burn rate in future quarters. Hence, we believe BioLight's cash on hand should last into Q417, assuming that no inter-company transfers will take place. This runway could potentially also be sufficient to allow for the closing or finalisation of the IOPtima sale to Chengdu.

We continue to model that BioLight will raise NIS18.0m in H217 in debt to sustain its operations and R&D projects. We continue to model that BioLight will raise NIS30.0m in 2018 and NIS25.0m 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). 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. However, given the slowdown in IOPtima sales as the Chinese market distribution activities are on hold, we have decreased our IOPtima sales forecasts for 2017 and 2018, to NIS2.2m and NIS8.6m, respectively, from NIS4.9m and NIS11.0m, respectively. We have not reduced our peak sales estimates, but have extended the amount of time expected to reach peak sales by one year in both the US market (to 2027) and also in ex-US markets (to 2024).

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 of 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. As we have decreased our near-term IOPtima revenue estimates and prolonged the time runway needed to achieve our peak sales targets, our IOPtiMate valuation components have mildly decreased. Eye-D VS-101 remains the largest potential source of revenue for the company, and we continue to use a 30% probability of success estimate for this project. After adjusting our IOPtiMate estimates and adjusting forex assumptions (and the public market value of held Micromedic shares), we now obtain an rNPV of NIS109.7-130.7m (down from NIS121.6-135.7m, previously).

Exhibit 1: BioLight Life Sciences 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	83.5	22.97	70.0%	2015	$22.1 in 2024
IOPtiMate in US Market (70% weighted)	Glaucoma	24.2	6.65	40.0%	2021	$23.4 in 2027
VS-101 (97% weighted)	Glaucoma	122.1	33.60	30.0%	2020	$69.8 in 2026
TeaRx (80% weighted)	DES diagnosis	26.1	7.18	50.0%	2017	$19.8 in 2025
Corporate costs & expenses						
SG&A expenses		(58.4)	(16.08)			
Net capex, NWC & taxes		(90.4)	(24.88)			
Value of Micromedic shares (MCTC, TASE)*		3.3	0.90			
Total rNPV		**110.3**	**30.35**			
Net cash (debt) (H117)		25.5	7.01			
Total equity value**		**135.8**	**37.36**			
FD shares outstanding (000) (H117)		3,634				

Source: Edison Investment Research. Note: *5.29m shares held with 6 September 2017 price of NIS0.617 per share. **Excludes the impact from any dilution resulting from any future equity offerings.

Exhibit 2: 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	2,217	8,937	20,061
Cost of Sales	(538)	(734)	(996)	(1,172)	(4,022)	(9,027)
Sales, General & Administrative	(8,529)	(11,956)	(10,360)	(10,234)	(9,193)	(11,640)
Research & Development	(18,560)	(13,045)	(10,982)	(18,010)	(27,800)	(21,800)
EBITDA	(26,686)	(24,344)	(20,227)	(27,199)	(32,077)	(22,406)
Depreciation	(3,884)	(1,306)	(3,190)	(1,329)	(2,400)	(2,400)
Amortization	0	0	0	0	0	0
Operating Profit (before exceptionals)	(30,570)	(25,650)	(23,417)	(28,528)	(34,477)	(24,806)
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)	(28,287)	(34,477)	(24,806)
Net Interest	448	543	(2,836)	(1,563)	(143)	(800)
Profit Before Tax (norm)	(30,122)	(25,107)	(26,253)	(30,091)	(34,620)	(25,606)
Profit Before Tax (FRS 3)	(36,008)	(27,582)	(33,610)	(29,850)	(34,620)	(25,606)
Tax	0	0	0	0	0	0
Profit After Tax and minority interests (norm)	(17,216)	(16,784)	(14,467)	(23,224)	(32,024)	(24,744)
Profit After Tax and minority interests (FRS 3)	(23,102)	(19,259)	(21,824)	(22,983)	(32,024)	(24,744)
Average Number of Shares Outstanding (m)	1.9	2.4	2.6	3.4	3.6	3.6
EPS - normalised (NIS)	(8.91)	(6.96)	(5.55)	(6.88)	(8.81)	(6.81)
EPS - normalised and fully diluted (NIS)	(8.91)	(6.96)	(5.55)	(6.88)	(8.81)	(6.81)
EPS - (IFRS) (NIS)	(11.96)	(7.98)	(8.37)	(6.80)	(8.81)	(6.81)
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	7,910	13,749	17,749
Intangible Assets	7,106	6,869	3,910	3,910	3,910	3,910
Tangible Assets	896	2,963	1,372	4,000	9,839	13,839
Current Assets	32,432	53,439	30,031	30,501	16,289	13,298
Short-term investments	6,408	385	417	382	382	0
Cash	22,196	50,697	25,057	27,476	9,406	1,928
Other	3,828	2,357	4,557	2,643	6,500	11,370
Current Liabilities	(6,552)	(6,605)	(6,988)	(7,121)	(772)	(1,525)
Creditors	(6,552)	(6,605)	(6,988)	(7,121)	(772)	(1,525)
Short term borrowings	0	0	0	0	0	0
Long Term Liabilities	(8,144)	(9,605)	(11,915)	(29,653)	(59,653)	(84,653)
Long term borrowings	0	0	0	(18,000)	(48,000)	(73,000)
Other long term liabilities	(8,144)	(9,605)	(11,915)	(11,653)	(11,653)	(11,653)
Net Assets	25,738	47,061	16,410	1,637	(30,387)	(55,130)
CASH FLOW						
Operating Cash Flow	(27,435)	(24,580)	(24,106)	(22,885)	(39,687)	(25,279)
Net Interest	448	543	(2,836)	(1,563)	(143)	(800)
Tax	0	0	0	0	0	0
Capex	(402)	(182)	(370)	(4,066)	(8,239)	(6,400)
Acquisitions/disposals	0	(837)	(227)	(192)	0	0
Financing	38,374	47,320	2,554	11,479	0	0
Net Cash Flow	10,985	22,264	(24,985)	(17,227)	(48,070)	(32,478)
Opening net debt/(cash)	(17,901)	(28,604)	(51,082)	(25,474)	(9,858)	38,212
HP finance leases initiated	0	0	0	0	0	0
Other	(282)	214	(623)	1,611	0	0
Closing net debt/(cash)	(28,604)	(51,082)	(25,474)	(9,858)	38,212	70,690

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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