

Canadian Pharmaceuticals Report
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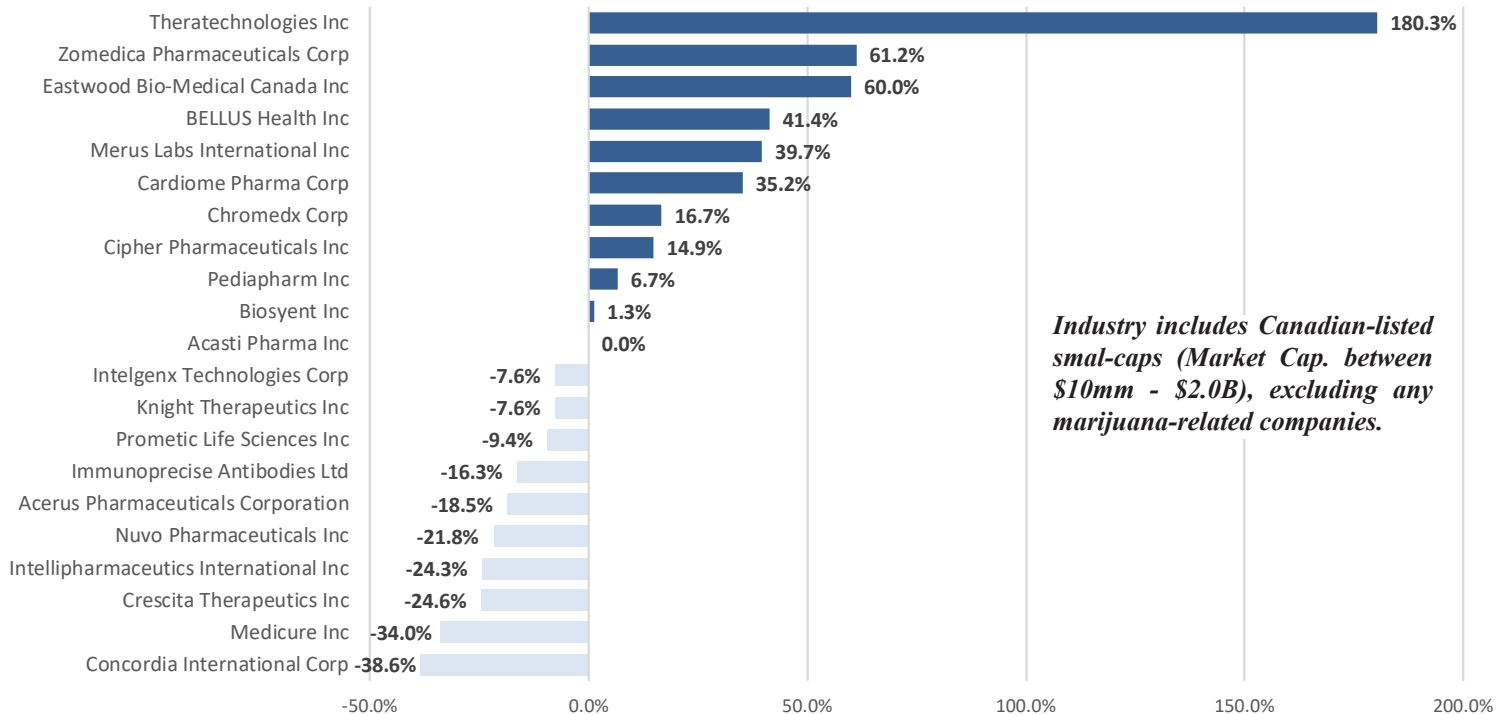
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Canadian Small Cap Pharma Industry Rises as Concordia Continues to Fall

It has been an eventful year for Canadian Pharma companies thus far, headlined by the declines of Valeant Pharmaceuticals and Concordia International. Despite this, Canadian small cap pharma companies are up on average 12.1% YTD, trumping the TSX, which has returned 1.2% thus far.

In this report, we discuss some industry highlights, as well as a couple of companies that have performed well so far this year. Finally, we conduct a fundamental analysis of Concordia International, and discuss how it will have troubles paying off its long-term debt.

Figure 1: Canadian Pharmaceutical Industry Performance (2017 YTD)



Source: Ubika Research

Industry Highlights

- **CBC news [released an episode of its show “The Fifth Estate”](#)** investigating the rising costs of drug prices in Canada. The episode details how Canada is the only country in the world that has universal health care, but no universal drug coverage, and this has caused an inability to afford life-savings medicines by many Canadians, resulting in high levels of debt and even death.
- **On Thursday, April 27, 2017, Ontario Finance Minister Charles Sousa delivered the [2017 Ontario budget](#),** which promised to increase healthcare spending by a total of \$11.5B over the next three years. The incremental spending will be used to reduce wait times and increase capacity at hospitals, and provide free prescription medication for children and youth. Total healthcare spending this year is projected to be \$54B, and is expected to rise to \$58B by 2019.
- **On May 4, 2017, the U.S. House of Representatives [approved legislation to repeal and replace major parts of the Affordable Care Act.](#)** The plan promises to reduce premiums and deductibles on health insurance. Furthermore, the Congressional Budget Office said the first version of the bill would considerably reduce the federal budget deficit but could leave many Americans without health insurance for a decade.

Upcoming Events

- Primary Care Today-Winnipeg, June 9-10, 2017, organized by the Diversified Business Communications at the TBC Convention Centre, Winnipeg, MB, Canada
- Pri med Care Updates Ottawa, June 9-10, 2017, organized by the Diversified Communications Canada, at the Ottawa Conference and Event Centre, Ottawa, QC, Canada
- Investor Spotlight: Fobion Capital, September 6, 2017, hosted by Johnson & Johnson Innovation Labs at 661 University Ave, Suite 1300, Toronto, ON, Canada
- The Road to the Biologic IND, September 19, 2017, hosted by Johnson & Johnson Innovation Labs at 661 University Ave, Suite 1300, Toronto, ON Canada

Canadian Pharma Up 12.1% Year to Date

Merus Labs International Inc. (TSX: MSL)

Merus is a speciality pharmaceutical company focused on acquiring and optimizing legacy growth products. The Company operates primarily in Europe and Canada and currently owns, markets, and distributed 12 products. The Company's stock is up 40% YTD due to an announcement that Norgine Limited (private), has agreed to acquire all the issued and outstanding shares of Merus for \$1.65 per share in cash, including the assumption of all debt, for a total enterprise value of \$342mm. The acquisition price representing a premium of 63.4% to the prior day's closing price of \$1.01, and a premium of 55.1% over the 30-day volume weighted average price of \$1.06.

Michael Cloutier, Chairman of Merus, stated this was the best strategic move the Company could take after analysing all alternatives. He also stated the board has unanimously concluded the transaction is in the best interests of the Company and its shareholders.

The deal is still subject to all regulatory approval, including court approval of at least 66% of Merus' shareholders. The meeting will be held in July 2017, and directors and senior officers of Merus who hold a total of 5.7% of the Company's shares have already agreed to vote in favour of the transaction. The deal is expected to close by September 30, 2017.

Figure 2: Canadian Small-Cap Pharmaceutical Industry - valuation table

Company Name	Ticker	Market Cap (mm)	Net Debt (mm, LFQ)	EV/Sales (LTM)	EV/EBITDA (LTM)	YTD Price PCT Change
Concordia International Corp	CXR.TO	89.4	3,215.4	4.4x	8.6x	-38.6%
Prometic Life Sciences Inc	PLI.TO	1,350.5	29.5	86.2x	-12.0x	-9.4%
Knight Therapeutics Inc	GUD.TO	1,415.9	-805.4	92.2x	-137.9x	-7.6%
Theratechnologies Inc	TH.TO	566.9	-11.1	14.9x	101.4x	180.3%
Merus Labs International Inc	MSL.TO	190.1	133.0	3.1x	8.0x	39.7%
Zomedica Pharmaceuticals Corp	ZOM.V	206.8	-1.8	-	-29.9x	61.2%
Cardiome Pharma Corp	COM.TO	161.8	0.1	6.9x	-10.4x	35.2%
Medicure Inc	MPH.V	106.2	55.4	4.0x	27.6x	-34.0%
Cipher Pharmaceuticals Inc	CPH.TO	149.2	5.8	3.9x	23.4x	14.9%
Biosyent Inc	RX.V	117.2	-14.0	5.7x	18.1x	1.3%
Intellipharmaeuctics International Inc	IPCI.TO	87.2	-1.1	29.5x	-9.3x	-24.3%
Intelgenx Technologies Corp	IGX.V	63.5	-0.8	10.9x	-454.0x	-7.6%
Immunoprecise Antibodies Ltd	IPA.V	41.7	-3.5	18.8x	-8.8x	-16.3%
Nuvo Pharmaceuticals Inc	NRI.TO	51.0	-18.6	1.2x	4.3x	-21.8%
Pediapharm Inc	PDP.V	28.0	0.1	5.4x	11.8x	6.7%
Acerus Pharmaceuticals Corporation	ASP.TO	23.4	-0.8	1.5x	6.0x	-18.5%
BELLUS Health Inc	BLU.TO	27.4	-7.0	15.6x	-9.2x	41.4%
Acasti Pharma Inc	ACST.V	25.7	-8.4	-	-2.1x	0.0%
Crescita Therapeutics Inc	CTX.TO	12.4	3.9	2.9x	-1.3x	-24.6%
Chromedx Corp	CHX.CD	15.3	-0.5	-	-7.6x	16.7%
Eastwood Bio-Medical Canada Inc	EBM.V	13.5	-1.3	27.3x	-24.5x	60.0%
Median (excluding MSL.TO)				6.9x	-4.8x	
Median (EBITDA-positive companies)				4.2x	14.9x	
Average						12.1%

Source: Ubika Research

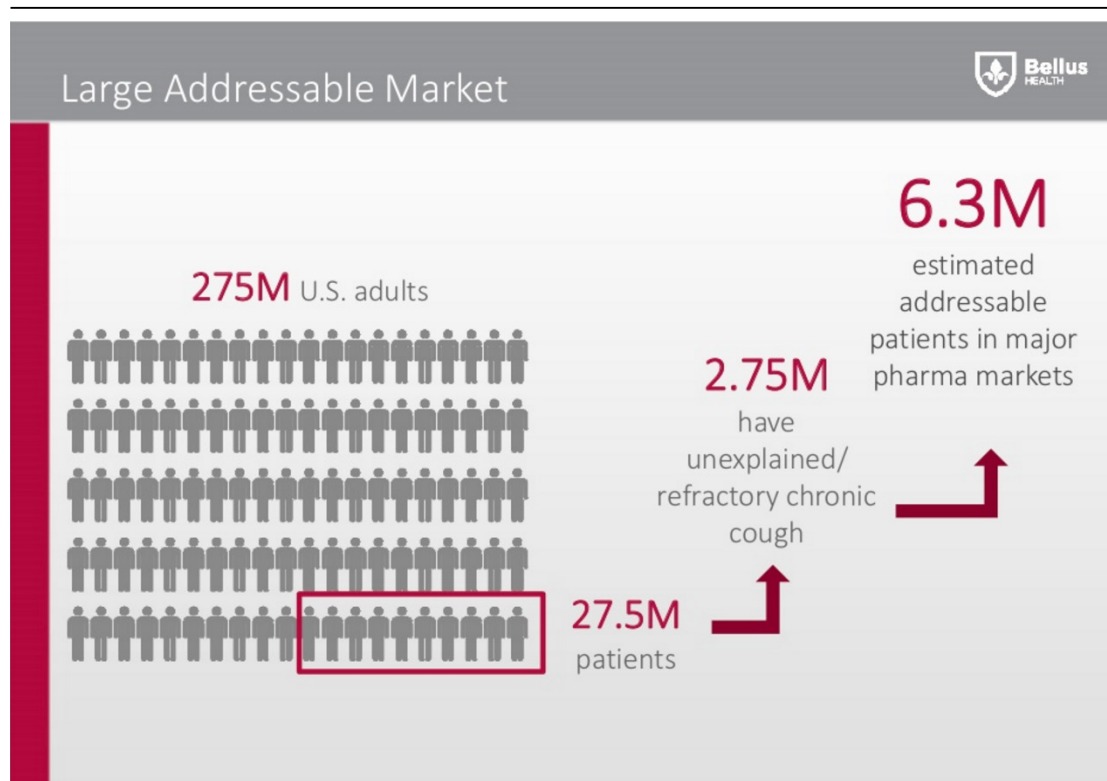
The acquisition implies a transaction multiple of 3.8x Sales and 8.5x EBITDA. This is noticeably lower than the multiples exhibited in the small-cap pharma industry median of 4.2x Sales and 14.9x EBITDA (as seen in Figure 2, when looking at EBITDA-positive stocks only).

BELLUS Health Inc. (TSX: BLU)

BELLUS Health is a biopharma development company focused on advancing original therapeutics that cater to conditions with highly unmet medical need. The Company is up 41% YTD, mainly due to developments of its core drug, BLU-5937.

During Q1/2017, the Company focused on its core business plan for the development of BLU-5937, a leading drug candidate for treatment of chronic cough. On February 28, 2017, the Company paid \$3.2mm to obtain an exclusive worldwide license from the Montreal-based NEOMED Institute to develop and commercialize the drug. This is a significant step, as the Company has added a best in class drug to their portfolio, which caters to a large market. Management estimates the worldwide market size to be 6mm people. The Company said patients will need to take the drug orally every day. Although the Company has not given any information on the selling price of the drug, taking a conservative estimate of \$20 per an

Figure 3: Addressable Market for BLU-5937

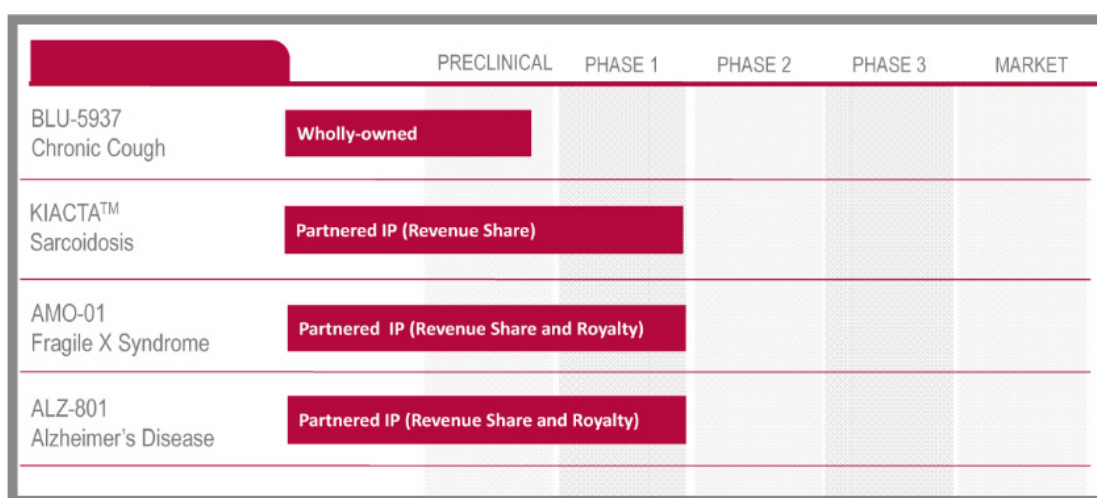


Source: Company Filings

100-pill bottle (the price for some drugs in the states costs upwards of \$100,000 annually), and estimating intake at 1 pill per day, the total addressable market size for the 6.3mm people would equate to \$4.6B.

The Company also made strides in protecting this product, obtaining a U.S. patent covering the chemical composition of the drug, with the patent expiry in 2034. BELLUS Health applied for similar patent protection in Europe, Japan, China, and other industrialized nations. Of note, there is still uncertainty surrounding this drug, as it is still in the preclinical phase.

Figure 4: Product Pipeline



Source: Company Filings

The Company has licensing agreements with three other drugs, KIACTA for treatment of Sarcoidosis, AMO-01 for treatment of Fragile X syndrome, and ALZ-801 for treatment of Alzheimer's disease.

KIACTA and AMO-01 have been approved for Phase 2 studies, whereas ALZ-801 has completed two Phase 1b clinical studies and is currently preparing for further late-stage clinical studies.

The Company has no debt, and during Q1/2017 sold its wholly-owned subsidiary Thallion Pharmaceuticals for \$2.7mm, giving it a cash position of \$7.0mm. Management believes this is sufficient to fund operations to the end of 2018.

Concordia International Corp. (TSX: CXR)

Concordia is a Canadian-based pharmaceutical company that owns a portfolio of branded and generic prescription products. The Company's stock is down 39% this year due to its deteriorating financial health as well as a bleak outlook for the future.

Revenues fell 30% to \$161mm from Q1/2016 to Q1/2017 as the Company stated they have continued to lose market share due to the highly competitive nature of the generic pharma market as well as increased pricing pressure. Increased competition and pricing pressure also had an impact on the Company's net margin and operating cash flow. Concordia reported a net loss margin of -49%, which is much lower than the industry average of 4.9%; while operating cash flow was down 79% since last quarter.

Figure 5: Concordia - Quarterly Financial Performance

For the three months ended (in \$000's, except per share amounts)	Q1-2017	Q4-2016	Q3-2016	Q2-2016	Q1-2016	Q4-2015	Q3-2015	Q2-2015
Revenue	160,557	170,408	185,504	231,712	228,535	191,908	93,005	75,198
Gross profit	115,415	120,464	137,034	177,607	159,852	115,727	84,953	68,966
Adjusted Gross profit ⁽¹⁾	115,726	120,858	138,540	178,476	178,495	149,659	84,953	68,966
Operating income (loss)	18,366	(524,962)	42,636	(514,931)	54,950	1,852	44,520	24,274
Net income (loss), continuing operations	(78,824)	(663,761)	(75,147)	(570,384)	(4,801)	(31,455)	1,496	(3,252)
Cash	336,156	397,917	162,616	145,341	178,516	155,448	670,548	137,250
Total assets	3,619,665	3,731,574	4,229,695	4,349,554	5,197,586	5,282,259	2,460,116	1,938,452
Total liabilities	4,058,725	4,109,147	3,928,646	3,982,125	4,111,596	4,126,051	1,430,919	1,378,661
EBITDA ⁽¹⁾	56,932	(569,997)	30,213	(454,285)	108,952	50,087	53,368	31,387
Adjusted EBITDA ⁽¹⁾	84,242	80,508	104,444	142,344	140,848	120,121	71,376	54,924
Earnings (Loss) per share								
Basic	(1.54)	(13.00)	(1.47)	(11.18)	(0.09)	(0.64)	0.04	(0.10)
Diluted	(1.54)	(13.00)	(1.47)	(11.18)	(0.09)	(0.64)	0.04	(0.10)
Adjusted ⁽¹⁾	0.22	0.13	0.69	1.38	1.35	1.24	1.37	1.11

Source: Company Filings

The Company has no near-term growth catalysts as management has focused on stabilizing the business. They have done a good job so far, as the Company has enough cash and cash flow to meet current debt obligations and interest payments. The concern, however, is in the long term as the Company has \$3.4B in long-term debt, with \$1.6B maturing in 1-5 years. With a 39x net debt to EBITDA multiple, deteriorating margins, and declining operating cash flow it is tough to see how they will meet these obligations without either selling assets, restructuring, or raising capital at less favourable terms. All of which would hurt shareholders.

Going forward, management expect to see Q/Q revenue declines until they implement their long-term growth strategy, which will be announced sometime in the second half of 2017. The Company is also facing an investigation by the Competition and Markets Authority (CMA) for its U.K. drug pricing practises, which continues to hurt the stock price. Given the regulatory pressure, deteriorating financial performance, and troublesome debt load, we would recommend avoiding the stock until management reveals their long-term growth strategy, at which point a revaluation may be necessary.

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