



January 27, 2021

**Key Metrics**

ORMP - NASDAQ	\$6.84
Pricing Date	Jan 26 2021
Price Target	\$12.00
52-Week Range	\$7.60 - \$2.40
Shares Outstanding (mm)	26.7
Market Capitalization (mm)	\$182.4
3-Mo Average Daily Volume	653,617
Institutional Ownership	13%
Debt/Total Capital	NM
ROE	NM
Book Value/Share	\$1.19
Price/Book	5.7x
Dividend Yield	NM
LTM EBITDA Margin	NM

**EPS FY: August**

	2020A	Prior 2021E	Curr. 2021E	Prior 2022E	Curr. 2022E
1Q-Nov	(0.15)	--	(0.23)A	--	(0.12)E
2Q-Feb	(0.21)	(0.18)E	(0.16)E	--	(0.12)E
3Q-May	(0.10)	(0.18)E	(0.14)E	--	(0.12)E
4Q-Aug	(0.13)	(0.18)E	(0.13)E	--	(0.11)E
FY	(0.56)	(0.78)E	(0.66)E	(0.76)E	(0.47)E
P/E					

**Revenue (M)**

	2020A	Prior 2021E	Curr. 2021E	Prior 2022E	Curr. 2022E
1Q-Nov	0.7	--	0.7A	--	0.7E
2Q-Feb	0.7	--	0.7E	--	0.7E
3Q-May	0.7	--	0.7E	--	0.7E
4Q-Aug	0.7	--	0.7E	--	0.7E
FY	2.7	--	2.7E	--	2.7E

**Company Description:**

Oramed Pharmaceuticals, Inc. is an clinical-stage biotechnology company that is developing orally formulated therapeutics, including an oral insulin. The company was founded in 2006 and has offices in New York and Jerusalem.

## Company Update / Price Target Change / Estimates Change

**Oramed Pharmaceuticals, Inc.****Rating: Buy****Raise PT; Updates On Clinical Trial Progress****Investment Highlights:**

- Updates.** Oramed announced the initiation of its first phase 3 trial (on Nov 24th) of oral insulin (ORMD-0801) for the treatment of type 2 diabetes (T2DM), and subsequently provided an update on initial patient dosing (Jan 21st). The trial, ORA-D-013-1, intends to recruit 675 patients with inadequate glycemic control on 1-3 oral glucose-lowering agents, across 75 clinical trial sites in the US, with a primary endpoint of HbA1c control compared to placebo. The timing of the phase 3 trial commencement was consistent with the timeline laid out in our July 2020 [note](#). The second phase 3 trial, ORA-D-013-2 will be focused on a patient population that has inadequate glycemic control on diet alone or on diet + metformin. Outside of the lead program in diabetes, Oramed also recently announced the initiation of its phase 2 trial of ORMD-0801 in NASH (Dec 2nd) and positive first-in-human data from its oral leptin study (Dec 23rd).
- Our take.** Oramed has a technology platform designed to provide oral administration of drugs. Its lead indication, diabetes, constitutes nothing short of a global health crisis (463mm people suffering from diabetes globally; 27mm in the US, with the vast majority of those suffering from type 2 diabetes). As a result of the high prevalence of diabetes, the market for insulin is very large, we believe (e.g. \$10bn+ in the U.S. alone). As we see it, ORMD-0801 can serve as a valuable addition to the existing treatment landscape, given its natural (oral pathway) and synergistic (potential to augment existing treatments) characteristics. As a reminder, ORMD-0801 successfully met its endpoints in the phase 2b trial, including HbA1c lowering vs placebo. We believe Oramed will have a sufficient runway of exclusivity in the marketplace to earn an attractive return on its R&D investments to-date (and/or to attract additional partners, as was seen in the China market licensing arrangement), and that the additional indications (such as NASH), provide optionality to investors.
- Target and estimates.** We maintain a BUY rating on shares of ORMP and raise our PT to \$12 (from \$6). Our valuation is based on a DCF model with a 20% discount rate. Adjustments to our model include raising the estimated market share capture, as, following our management dialogue, we've gained a greater appreciation for the commercialization strategy across both an early-stage diabetes patient population (e.g. the phase 3 trial where diet or diet + metformin are the sole background therapy) as well as in a more advanced population (e.g. the phase 3 trial where patients are on multiple existing agents), for greater HbA1c control. We estimate that ORMP had ~\$38mm of cash and investments, and no debt, at Nov 30th. Risks include: 1) clinical, 2) financial, 3) operational, and other.

## Income statement

Oramed (ORMP)

Historical and forecasted income statement (\$mm)

	FY:18A	FY:19A	FY:20A	FY:21E				FY:22E					
	FY:18A	FY:19A	FY:20A	1QA	2QE	3QE	4QE	FY:21E	1QE	2QE	3QE	4QE	FY:22E
	8/31/2018	8/31/2019	8/31/2020	11/30/2020	2/28/2021	5/31/2021	8/31/2021	8/31/2021	11/30/2021	2/28/2022	5/31/2022	8/31/2022	8/31/2022
<b>Revenues</b>	<b>2.4</b>	<b>2.7</b>	<b>2.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>2.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>2.7</b>
<i>Growth</i>													
Cost of revenues	(0.1)	0.1											
<b>Gross profit</b>	<b>2.5</b>	<b>2.6</b>	<b>2.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>2.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>0.7</b>	<b>2.7</b>
<i>Gross margin</i>													
Research and development	12.0	13.5	10.2	5.8	4.0	3.6	3.3	16.7	3.2	3.1	3.1	3.0	12.5
General and administrative	4.1	3.7	4.2	0.7	0.7	0.8	0.8	3.0	0.8	0.8	0.8	0.8	3.2
<b>Operating gain (loss)</b>	<b>(13.5)</b>	<b>(14.6)</b>	<b>(11.8)</b>	<b>(5.8)</b>	<b>(4.1)</b>	<b>(3.7)</b>	<b>(3.4)</b>	<b>(17.0)</b>	<b>(3.3)</b>	<b>(3.3)</b>	<b>(3.2)</b>	<b>(3.2)</b>	<b>(13.0)</b>
<i>Operating margin</i>													
Interest income	0.9	1.1	0.7	0.3	0.3	0.3	0.3	1.0	0.3	0.3	0.3	0.3	1.0
Interest expense	0.1	0.5	0.4										
Income (loss) from changes in fair value of investments													
<b>Income (loss) before tax</b>	<b>(12.7)</b>	<b>(14.1)</b>	<b>(11.5)</b>	<b>(5.6)</b>	<b>(3.9)</b>	<b>(3.5)</b>	<b>(3.1)</b>	<b>(16.0)</b>	<b>(3.1)</b>	<b>(3.0)</b>	<b>(3.0)</b>	<b>(2.9)</b>	<b>(12.0)</b>
Tax		0.3											
<b>Net gain (loss)</b>	<b>(12.7)</b>	<b>(14.4)</b>	<b>(11.5)</b>	<b>(5.6)</b>	<b>(3.9)</b>	<b>(3.5)</b>	<b>(3.1)</b>	<b>(16.0)</b>	<b>(3.1)</b>	<b>(3.0)</b>	<b>(3.0)</b>	<b>(2.9)</b>	<b>(12.0)</b>
Unrealized income on available for sale securities	(0.3)												
Total other OCI	(0.3)												
Total comprehensive gain (loss)	(12.4)												
<b>Diluted gain (loss) per share</b>	<b>(0.86)</b>	<b>(0.82)</b>	<b>(0.56)</b>	<b>(0.23)</b>	<b>(0.16)</b>	<b>(0.14)</b>	<b>(0.13)</b>	<b>(0.66)</b>	<b>(0.12)</b>	<b>(0.12)</b>	<b>(0.12)</b>	<b>(0.11)</b>	<b>(0.47)</b>
<i>Diluted weighted average shares outstanding</i>	<i>14.88</i>	<i>17.45</i>	<i>20.53</i>	<i>23.75</i>	<i>24.06</i>	<i>24.38</i>	<i>24.70</i>	<i>24.22</i>	<i>25.01</i>	<i>25.33</i>	<i>25.65</i>	<i>25.96</i>	<i>25.49</i>

Source: Aegis Capital estimates; company filings

## Valuation

Year	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Insulin market				10,824,321,600	11,040,808,032	11,261,624,193	11,486,856,676	11,716,593,810	11,950,925,686	12,189,944,200	12,433,743,084	12,682,417,946	12,936,066,305
<i>ORMP share</i>				0.75%	0.95%	1.15%	1.35%	1.55%	1.65%	1.75%	1.85%	1.95%	2.05%
<b>Revenue</b>	<b>81,182,412</b>	<b>104,887,676</b>	<b>129,508,678</b>	<b>155,072,565</b>	<b>181,607,204</b>	<b>197,190,274</b>	<b>213,324,023</b>	<b>230,024,247</b>	<b>247,307,150</b>	<b>265,189,359</b>			
<i>Growth</i>				29%	23%	20%	17%	9%	8%	8%	8%	8%	7%
COGS	16,236,482	18,879,782	20,721,389	23,260,885	27,241,081	29,578,541	31,998,604	34,503,637	37,096,072	39,778,404			
Gross income	64,945,930	86,007,895	108,787,290	131,811,680	154,366,123	167,611,733	181,325,420	195,520,610	210,211,077	225,410,955			
<i>Gross margin</i>	80%	82%	84%	85%	85%	85%	85%	85%	85%	85%	85%	85%	85%
R&D	16,727,278	12,453,625	12,204,553	11,960,462	11,721,253	11,486,828	11,257,091	11,031,949	10,811,310	10,595,084	10,383,182	10,175,519	9,972,008
G&A	2,996,409	3,243,409	3,340,712	3,440,933	3,544,161	3,650,486	3,760,001	3,872,801	3,988,985	4,108,654	4,231,914	4,358,871	4,489,637
EBIT	(19,723,687)	(15,697,035)	(15,545,265)	49,544,535	70,742,481	93,649,976	116,794,589	139,461,374	152,811,438	166,621,682	180,905,514	195,676,688	210,949,310
<i>Operating margin</i>	61%	67%	72%	75%	77%	77%	78%	79%	79%	79%	79%	79%	80%
Interest													
EBT	(19,723,687)	(15,697,035)	(15,545,265)	49,544,535	70,742,481	93,649,976	116,794,589	139,461,374	152,811,438	166,621,682	180,905,514	195,676,688	210,949,310
Tax								6,973,069	22,921,716	34,990,553	37,990,158	41,092,104	44,299,355
<i>Tax rate</i>								5%	15%	21%	21%	21%	21%
Net income	(19,723,687)	(15,697,035)	(15,545,265)	49,544,535	70,742,481	93,649,976	116,794,589	132,488,305	129,889,722	131,631,129	142,915,356	154,584,583	166,649,955
D&A													
CAPEX													
<b>Simple FCF</b>	<b>(19,723,687)</b>	<b>(15,697,035)</b>	<b>(15,545,265)</b>	<b>49,544,535</b>	<b>70,742,481</b>	<b>93,649,976</b>	<b>116,794,589</b>	<b>132,488,305</b>	<b>129,889,722</b>	<b>131,631,129</b>	<b>142,915,356</b>	<b>154,584,583</b>	<b>166,649,955</b>
Year	1	2	3	4	5	6	7	8	9	10	11	12	13
<i>Discount rate</i>	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Discount factor	1.2	1.4	1.7	2.1	2.5	3.0	3.6	4.3	5.2	6.2	7.4	8.9	10.7
Discounted FCF	(16,436,406)	(10,900,719)	(8,996,102)	23,893,005	28,429,816	31,363,188	32,595,226	30,812,545	25,173,498	21,259,162	19,234,690	17,337,690	15,575,751

## Valuation

Interim years value	\$209,341,345
Terminal value	\$88,262,590
Total value	\$297,603,935
Terminal growth	2%

<b>Est. share value</b>	<b>\$12</b>
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Source: Aegis Capital estimates; company filings

## Required Disclosures

### Price Target

Our price target on ORMP is \$12.

### Valuation Methodology

We value ORMP using a discounted cash flow analysis.

### Risk Factors

- **Development risk.** Drugs in clinical development may not advance due to inadequate safety, efficacy, or patient tolerance.
- **Regulatory risk.** Regulatory agencies may decline to approve regulatory submissions in a timely manner, or may not approve a drug candidate at all.
- **Dilution risk.** The firm may require substantial funding to complete the clinical development of its candidates and establish commercial infrastructure, and future capital raises could be dilutive to existing shareholders.
- **Competition risk.** We expect competition for the company's drugs from several public and private companies developing pharmaceuticals.
- **Reimbursement risk.** Sales of the firm's drugs could depend upon reimbursement from private, as well as public, reimbursement agencies.
- **Other risks.** There may be other risks, including COVID, other externalities, key man, or other risks. Our failure to state a risk specifically does not obviate its presence or potential impact on the value or price of shares in Oramed.

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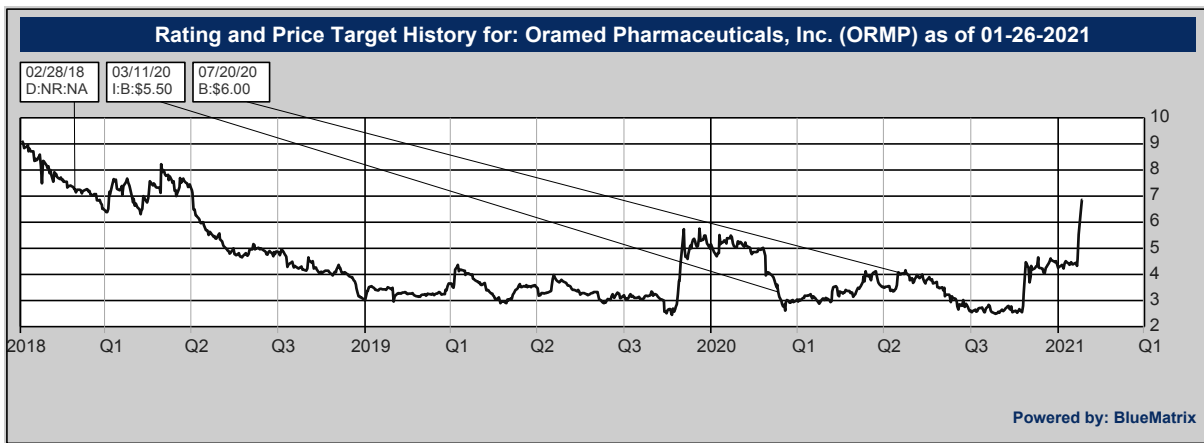
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Rating	Investment Banking Services/Past 12 Mos.	
	Percent	Percent
BUY [BUY]	92.00	40.58
HOLD [HOLD]	8.00	33.33
SELL [SELL]	0.00	0.00

#### Meaning of Ratings

- A) A Buy rating is assigned when we do not believe the stock price adequately reflects a company's prospects over 12-18 months.
- B) A Hold rating is assigned when we believe the stock price adequately reflects a company's prospects over 12-18 months.
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