

November 6, 2015

Approaching China Licensing Deal Finish Line

Stock Data		11/05/2015		
Rating		Buy		
Price		\$6.81		
Exchange		NASDAQ		
Price Target		\$24.00		
52-Week High		\$9.84		
52-Week Low		\$3.71		
Enterprise Value (MM)		\$55		
Market Cap (MM)		\$79		
Public Market Float (MM)		9.4		
Shares Outstanding (MM)		11.6		
3 Month Avg Volume		59,717		
Short Interest (MM)		0.75		
Balance Sheet Metrics				
Cash (MM)		\$3.86		
Total Debt (MM)		\$0.00		
Total Cash/Share		\$0.36		
Book Value/Share		\$1.97		
EPS Diluted				
Full Year - Aug	2014A	2015E	2016E	
1Q	(0.14)	(0.19)A	(0.19)	
2Q	(0.12)	(0.16)A	(0.22)	
3Q	(0.18)	(0.15)A	(0.23)	
4Q	(0.16)	(0.18)	(0.23)	
FY	(0.62)	(0.67)	(0.88)	
FY P/E	NM	NM	NM	



China licensing transaction exclusivity period extended. At the end of October 2015, the exclusivity period for negotiation between Oramed and Sinopharm-Hefei, a Chinese entity affiliated with Sinopharm (SHTDF; not rated), one of China's largest pharmaceutical firms, was extended until December 22, 2015. Oramed continues to negotiate with Sinopharm-Hefei on the terms of a regional licensing transaction involving the rights to Oramed's lead oral insulin drug candidate, ORMD-0801. In anticipation of a deal announcement near-term, we reiterate our Buy rating and 12-month price target of \$24.00 per share. The ongoing Phase 2b trial of ORMD-0801 is slated to yield top-line data in the first half of next year.

Transaction parameters remain favorable, in our view. According to the non-binding Letter of Intent (LOI) between the companies, as amended, Oramed is slated to enter into a Stock Purchase Agreement with Hefei Life Science and Technology Park Investments and Development Co., Ltd. (HLST). Pursuant to this arrangement, HLST is slated to agree to buy an aggregate of 1,155,367 shares of Oramed's common stock at a price per share of approximately \$10.39 (i.e., \$12M in total), which remains unchanged from the original agreement. Oramed is slated to grant a commercialization license to Sinopharm-Hefei in the People's Republic of China related to oral insulin, in exchange for: (1) royalties of 10% on net sales of the related commercialized products to be sold by HLST in the licensed territory; and (2) an aggregate of approximately \$37.5M, of which \$11M would be paid up front, subject to the satisfaction of certain conditions, and \$26.5M would be payable upon achievement of certain milestones. The aggregate total value of the milestones remains roughly the same, while the schedule has changed to reflect a more back end-loaded format, with \$11M vs. the original \$18M payable upfront and the remainder payable after Oramed's Phase 2b study is completed, subject to achievement of certain milestones, as opposed to the \$20M payment that was in the initial agreement. We believe that the share purchase component of this transaction could be completed this month, which from our perspective would represent a positive endorsement given the fact that the purchase price constitutes a substantial premium to the current share price.

Undervalued technology platform. Oramed currently trades at an enterprise value of <\$60M, while the global diabetes market is estimated to be on track to exceed \$40B by 2018. In our view, positive data from the firm's Phase 2b trial of ORMD-0801 could make ORMD-0801 the subject of a relatively near-term licensing transaction or might possibly serve as the catalyst for an acquisition of Oramed by an established participant in the diabetes market, potentially in 2016.

Valuation methodology. We have utilized a risk-adjusted net present value (rNPV) approach to assess Oramed's prospects. Factoring in a 12% discount rate, a 60% probability of success for ORMD-0801, and peak annual sales of \$2.1B (on which Oramed would receive double-digit percentage royalties), we derive a total rNPV for ORMD-0801 of \$130M. We add to this the additional value drivers of Oramed's pipeline, principally the firm's oral exenatide candidate ORMD-0901, to which we ascribe a collective valuation of \$180M, to derive a total firm value of \$357M. This translates into a price objective of \$24.00 per share, assuming net cash of \$47M and 15M shares outstanding as of the end of the fiscal third quarter of 2016.

Table 1: Oramed Pharmaceuticals, Inc. (ORMP)—Historical Income Statements, Financial Projections

FY end August 31

\$ in thousands, except per share data

	2014A				2014A	2015E				2015E	2016E	2017E	2018E
	1QA	2QA	3QA	4QA		1QA	2QA	3QA	4QE				
Revenue													
Product revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Research and other	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses													
Cost of product and service revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Research & development	751	673	1,089	764	3,277	1,302	1,136	915	1,200	4,553	6,400	9,100	12,200
Selling and marketing	-	-	-	-	-	-	-	-	-	-	-	-	-
General and administrative	418	512	814	885	2,629	600	538	719	900	2,757	5,000	7,600	10,400
Total expenses	1,168	1,186	1,903	1,649	5,906	1,902	1,674	1,634	2,100	7,310	11,400	16,700	22,600
Gain (loss) from operations	(1,168)	(1,186)	(1,903)	(1,649)	(5,906)	(1,902)	(1,674)	(1,634)	(2,100)	(7,310)	(11,400)	(16,700)	(22,600)
Other income/expense													
Financial income	46	74	79	25	225	27	38	51	60	176	265	246	318
Financial expense	(2)	(3)	(4)	(1)	(11)	(21)	(1)	-	-	(22)	-	(120)	(120)
Impairment of available-for-sale securities													
Total investment income and other	44	71	75	24	214	6	37	51	60	154	265	126	198
Loss before provision for income taxes	(1,124)	(1,115)	(1,828)	(1,625)	(5,692)	(1,896)	(1,637)	(1,583)	(2,040)	(7,156)	(11,135)	(16,574)	(22,402)
Deferred income tax benefit				(4)	(4)	-	-	-	-	-	-	-	-
Net loss/income	(1,124)	(1,115)	(1,828)	(1,629)	(5,696)	(1,896)	(1,637)	(1,583)	(2,040)	(7,156)	(11,135)	(16,574)	(22,402)
Net loss per share (basic)	(0.14)	(0.12)	(0.18)	(0.16)	(0.62)	(0.19)	(0.16)	(0.15)	(0.18)	(0.67)	(0.88)	(1.27)	(1.64)
Net loss per share (diluted)	(0.14)	(0.12)	(0.18)	(0.16)	(0.62)	(0.19)	(0.16)	(0.15)	(0.18)	(0.67)	(0.88)	(1.27)	(1.64)
Weighted average number of shares outstanding (basic)	7,941	9,128	9,888	10,029	9,244	10,142	10,482	10,828	11,439	10,723	12,586	13,052	13,627
Weighted average number of shares outstanding (diluted)	7,941	9,128	9,888	10,029	9,244	10,142	10,482	10,828	11,439	10,723	12,586	13,052	13,627

Source: Company reports and Rodman & Renshaw estimates.

Table 2: Oramed Pharmaceuticals, Inc. (ORMP)—Historical Balance Sheets, Financial Projections

FY end August 31

\$ in thousands, except per share data

	2014A					2015E							
	11/30	2/28	5/31	8/31	8/31/14A	11/30A	2/28A	5/31A	8/31	8/31/15E	8/31/16E	8/31/17E	8/31/18E
Assets													
Current assets:													
Cash and cash equivalents	1,371	3,253	2,475	1,762	1,762	6,656	1,102	3,847	2,307	2,307	(25)	(14,199)	(1,251)
Short-term deposits	5,459	18,634	12,005	18,481	18,481	17,026	16,351	12,549	12,549	12,549	12,549	12,549	12,549
Marketable securities	962	1,464	1,063	1,047	1,047	688	695	758	758	758	758	758	758
Restricted cash	16	16	61	16	16	16	16	16	16	16	16	16	16
Accounts receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid expenses	173	246	98	64	64	120	129	100	100	100	100	100	100
Related parties	5	2	1	330	330	-	-	-	-	-	-	-	-
Grants receivable	-	73	267	78	78	27	2	33	33	33	33	33	33
Total current assets	7,986	23,687	15,970	21,778	21,778	24,533	18,295	17,303	15,763	15,763	13,431	(743)	12,205
Property and equipment	9	12	14	14	14	15	13	8	8	8	8	8	8
Amounts funded in respect of employee retirement rights	6	6	7	7	7	7	7	12	12	12	12	12	12
Other assets	5	5	6,508	3	3	5	4,665	4,806	4,806	4,806	4,806	4,806	4,806
Total Assets	8,006	23,710	22,498	21,802	21,802	24,560	22,980	22,129	20,589	20,589	18,257	4,083	17,031
Liabilities and shareholder equity													
Current liabilities													
Accounts payable and accrued expenses	621	303	448	926	926	795	570	731	731	731	731	731	731
Related parties	-	-	-	-	-	32	35	34	34	34	34	34	34
Other current liabilities	47	47	47	47	47	-	-	-	-	-	-	-	-
Total current liabilities	669	350	495	973	973	827	605	765	765	765	765	765	765
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Other long-term liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
Employee rights upon retirement	9	9	9	9	9	9	9	10	10	10	10	10	10
Long-term deferred tax liability	23	23	23	27	27	27	27	27	27	27	27	27	27
Total Liabilities	700	382	527	1,009	1,009	863	641	802	802	802	802	802	802
Shareholder's equity													
Common stock	95	117	119	121	121	129	129	129	130	130	131	131	133
Additional paid-in capital	30,124	46,726	47,574	48,040	48,040	53,191	53,463	53,971	53,970	53,970	60,572	60,572	93,120
Accumulated other comprehensive income	334	847	468	452	452	93	100	163	163	163	163	163	163
Deficit accumulated	(23,248)	(24,363)	(26,191)	(27,820)	(27,820)	(29,716)	(31,353)	(32,936)	(34,476)	(34,476)	(43,411)	(57,585)	(77,187)
Total shareholder's equity	7,305	23,328	21,971	20,793	20,793	23,697	22,339	21,327	19,787	19,787	17,455	3,281	16,229
Total liability and shareholder's equity	8,006	23,710	22,498	21,802	21,802	24,560	22,980	22,129	20,589	20,589	18,257	4,083	17,031

Source: Company reports and Rodman & Renshaw estimates.

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Distribution of Ratings Table				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	136	96.45%	51	37.50%
Neutral	4	2.84%	0	0.00%
Sell	0	0.00%	0	0.00%
Under Review	1	0.71%	0	0.00%
Total	141	100%	51	36.17%

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