

January 7, 2016

2016 Shaping Up as A Landmark Year; Reiterate Buy

Stock Data		01/06/2016		
Rating		Buy		
Price		\$8.25		
Exchange		NASDAQ		
Price Target		\$25.00		
52-Week High		\$10.74		
52-Week Low		\$3.71		
Enterprise Value (MM)		\$45		
Market Cap (MM)		\$96		
Public Market Float (MM)		9.4		
Shares Outstanding (MM)		11.6		
3 Month Avg Volume		143,652		
Short Interest (MM)		0.64		
Balance Sheet Metrics				
Cash (MM)		\$3.23		
Total Debt (MM)		\$0.00		
Total Cash/Share		\$0.29		
Book Value/Share		\$2.15		
EPS Diluted				
Full Year - Aug	2014A	2015A	2016E	
1Q	(0.14)	(0.19)	(0.19)	
2Q	(0.12)	(0.16)	(0.21)	
3Q	(0.18)	(0.15)	(0.22)	
4Q	(0.16)	(0.18)	(0.22)	
FY	(0.62)	(0.67)	(0.85)	



Multiple value drivers near term—we remain bullish. Yesterday, Oramed management released a letter to shareholders outlining recent milestone achievements and projected value drivers that the firm anticipates delivering over the course of 2016. The company expects to close enrollment in its ongoing Phase 2b trial of its lead oral insulin candidate, ORMD-0801, before the end of the first quarter. Data from this trial could be released in 2Q 2016. The firm is also conducting a Phase 1b trial with its second pipeline candidate, ORMD-0901 and expects data in 1Q 2016; this could pave the way for initiation of a Phase 2b trial with ORMD-0901 later in the year. Oramed also closed 2015 with roughly \$40M in cash, which we believe should be sufficient to fund operations for at least the next two years. Accordingly, we reiterate our Buy rating and 12-month price target of \$25.00 per share.

China licensing deal closed successfully. Oramed announced just before the end of 2015 that the licensing deal involving China rights to ORMD-0801 had been closed. The transaction involved a \$12M equity investment by Hefei Tianhui Incubator of Technologies (HTIT), comprising 1,155,469 shares of restricted Oramed stock at a price per share of approximately \$10.39, along with an upfront payment of \$3M and near-term milestones of \$8M, with a total transaction value based on milestones alone of \$50M. According to the agreement, Oramed will also be entitled to a 10% royalty on net sales of ORMD-0801 in China under this arrangement. We believe that the share purchase component of the China transaction represents a substantial positive endorsement. Furthermore, the valuation of the China rights to ORMD-0801 at \$50M plus royalties on net sales provides a solid benchmark for future licensing transactions.

Improving competitive landscape. We believe the slow commercial uptake of Afrezza, the inhaled insulin product from MannKind Corporation (MNKD; not rated), and the recent termination of the commercialization pact between MannKind and Sanofi S.A. (SNY; not rated) illustrate the challenges of an inhaled insulin preparation. In our view, this only underscores the market need for an orally-bioavailable insulin like ORMD-0801.

Discounted technology platform. Oramed currently trades at an enterprise value of ~\$55M, while the global diabetes market may exceed \$40B by 2018. In our view, Phase 2b data, which is slated for release in 2016, could if positive make ORMD-0801 the subject of an ex-China global licensing transaction or catalyze the acquisition of Oramed in calendar 2016.

Valuation methodology / risks and uncertainties. Factoring in a 12% discount rate, a 60% probability of success for ORMD-0801, and peak annual sales of \$2.1B (on which we project double-digit percentage royalties), we derive a total rNPV of \$130M. We add to this the value from Oramed's pipeline, principally ORMD-0901, to which we ascribe a valuation of \$180M, to derive a total firm value of \$357M. This translates into a price objective of \$25.00 per share, assuming net cash of ~\$56M and ~14.6M fully-diluted shares outstanding as of end-fiscal 2016. Risks that could impede achievement of our price objective include, but are not limited to: (i) slower-than-anticipated enrollment in Oramed's Phase 2b trial of ORMD-0801; (ii) adverse results from clinical studies; and (iii) negative regulatory actions.

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

FY end August 31

\$ in thousands, except per share data

	2014A	2015A				2015A	2016E				2016E	2017E	2018E
		1QA	2QA	3QA	4QA		1QE	2QE	3QE	4QE			
Revenue													
Product revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Research and other	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses													
Cost of product and service revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Research & development	3,277	1,302	1,136	915	1,428	4,781	1,400	1,600	1,800	1,600	6,400	9,100	12,200
Selling and marketing	-	-	-	-	-	-	-	-	-	-	-	-	-
General and administrative	2,629	600	538	719	745	2,602	1,000	1,200	1,300	1,500	5,000	7,600	10,400
Total expenses	5,906	1,902	1,674	1,634	2,173	7,383	2,400	2,800	3,100	3,100	11,400	16,700	22,600
Gain (loss) from operations	(5,906)	(1,902)	(1,674)	(1,634)	(2,173)	(7,383)	(2,400)	(2,800)	(3,100)	(3,100)	(11,400)	(16,700)	(22,600)
Other income/expense													
Financial income	225	27	38	51	52	168	55	50	85	75	265	246	318
Financial expense	(11)	(21)	(1)	-	4	(18)	-	-	-	-	-	(120)	(120)
Impairment of available-for-sale securities	-	-	-	-	106	106	-	-	-	-	-	-	-
Total investment income and other	214	6	37	51	162	256	55	50	85	75	265	126	198
Loss before provision for income taxes	(5,692)	(1,896)	(1,637)	(1,583)	(2,011)	(7,127)	(2,345)	(2,750)	(3,015)	(3,025)	(11,135)	(16,574)	(22,402)
Deferred income tax benefit	(4)	-	-	-	1	1	1	1	1	1	4	4	4
Net loss/income	(5,696)	(1,896)	(1,637)	(1,583)	(2,010)	(7,126)	(2,344)	(2,749)	(3,014)	(3,024)	(11,131)	(16,570)	(22,398)
Net loss per share (basic)	(0.62)	(0.19)	(0.16)	(0.15)	(0.18)	(0.67)	(0.19)	(0.21)	(0.22)	(0.22)	(0.85)	(1.21)	(1.57)
Net loss per share (diluted)	(0.62)	(0.19)	(0.16)	(0.15)	(0.18)	(0.67)	(0.19)	(0.21)	(0.22)	(0.22)	(0.85)	(1.21)	(1.57)
Weighted average number of shares outstanding (basic)	9,244	10,142	10,482	10,828	11,200	10,663	12,166	13,149	13,554	13,604	13,118	13,729	14,304
Weighted average number of shares outstanding (diluted)	9,244	10,142	10,482	10,828	11,200	10,663	12,166	13,149	13,554	13,604	13,118	13,729	14,304

Source: Company reports and Rodman & Renshaw estimates.

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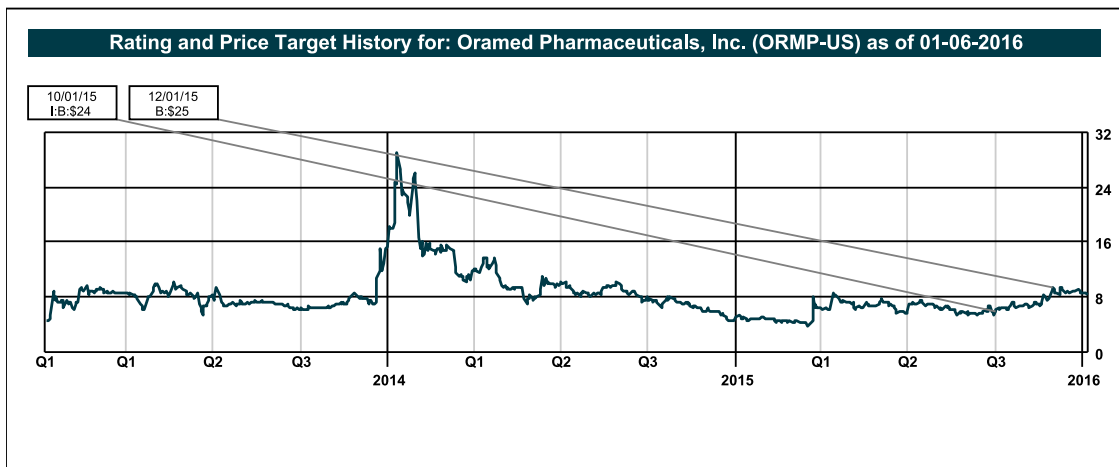
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RETURN ASSESSMENT

Market Outperform (Buy): The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector.

Market Perform (Neutral): The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector.

Market Underperform (Sell): The common stock of the company is expected to underperform a passive index comprised of all the common stock of companies within the same sector.



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Distribution of Ratings Table				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	141	97.92%	43	30.50%
Neutral	3	2.08%	0	0.00%
Sell	0	0.00%	0	0.00%
Under Review	0	0.00%	0	0.00%
Total	144	100%	43	29.86%

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