Zacks Small-Cap Research

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# Opiant Pharmaceuticals Inc. (OPNT-OTC)

## *OPNT: Receives Additional $3.75 Million Payment From NARCAN® Nasal Spray Royalty Monetization…*

Based on our probability adjusted DCF model that takes into account potential future revenues from treating opioid abuse, bulimia nervosa (BN), alcohol use disorder (AUD), and cocaine use disorder (CUD), OPNT is valued at $30/share. This model is highly dependent upon the commercial success of NARCAN® Nasal Spray and clinical success in treating BN, AUD, and CUD.

| | |
|---|---|
| Current Price (08/10/17) | $23.57 |
| **Valuation** | **$30.00** |

## OUTLOOK

On August 10, 2017, Opiant Pharmaceuticals Inc. (OPNT) announced that the company has received an additional $3.75 million payment from SWK Holdings Corporation. Opiant had originally received $13.7 million from SWK for a royalty monetization agreement signed in December 2016. The additional $3.75 million payment was triggered by the achievement of $25 million of cumulative net sales of NARCAN® Nasal Spray during the first two quarters of 2017. After SWK receives an aggregate of $26.25 million in royalties and milestones, Opiant will receive at least 90% of future NARCAN royalties and milestone payments. We have significantly increased our revenue estimates for NARCAN® Nasal Spray, resulting in an increase to our fair value estimate to $30 per share.

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$23.57** |
| **52-Week Low** | **$5.35** |
| **One-Year Return (%)** | **220.43** |
| **Beta** | **3.70** |
| **Average Daily Volume (sh)** | **12,832** |
| **Shares Outstanding (mil)** | **2** |
| **Market Capitalization ($mil)** | **$46** |
| **Short Interest Ratio (days)** | **N/A** |
| **Institutional Ownership (%)** | **0** |
| **Insider Ownership (%)** | **34** |
| **Annual Cash Dividend** | **$0.00** |
| **Dividend Yield (%)** | **0.00** |
| **5-Yr. Historical Growth Rates** | |
| **Sales (%)** | **N/A** |
| **Earnings Per Share (%)** | **N/A** |
| **Dividend (%)** | **N/A** |
| **P/E using TTM EPS** | **N/A** |
| **P/E using 2016 Estimate** | **N/A** |
| **P/E using 2017 Estimate** | **N/A** |

| | |
|---|---|
| **Risk Level** | **High,** |
| **Type of Stock** | **Small-Growth** |
| **Industry** | **Med-Biomed/Gene** |

## ZACKS ESTIMATES

### Revenue

(In millions of $)

| | Q1 (Oct) | Q2 (Jan) | Q3 (Apr) | Q4 (Jul) | Year (Jul) |
|---|---|---|---|---|---|
| 2016 | 0.1 A | 6.9 A | 2.6 A | 0.3 A | 9.9 A |
| 2017 | 1.1 A | 13.5 A | 0.0 A | 0.0 E | 14.7 A |
| 2018 | | | | | 0.0 E |
| 2019 | | | | | 0.0 E |

### Earnings per Share

(EPS is operating earnings before non-recurring items)

| | Q1 (Oct) | Q2 (Jan) | Q3 (Apr) | Q4 (Jul) | Year (Jul) |
|---|---|---|---|---|---|
| 2016 | -$6.00 A | $2.11 A | $0.22 A | -$0.42 A | -$4.09 A |
| 2017 | -$0.30 A | $5.31 A | -$1.55 A | -$0.87 E | $2.94 A |
| 2018 | | | | | -$4.83 E |
| 2019 | | | | | -$3.65 E |

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## WHAT'S NEW

**Business Update**

*Opiant Receives Additional $3.75 Million Payment From SWK*

On August 10, 2017, Opiant Pharmaceuticals Inc. (OPNT) announced an additional $3.75 million payment from SWK Holdings Corporation related to the royalty monetization agreement related to the sale of NARCAN® Nasal Spray signed between Opiant and SWK in December 2016. According to the agreement, the $3.75 million payment was due to Opiant upon Adapt Pharma recording >$25 million in cumulative net sales of NARCAN® Nasal Spray for any two consecutive quarters from Oct. 1, 2016 to Sep. 30, 2017. This occurred over the first two quarters of 2017.

The royalty monetization agreement with SWK stipulates that SWK will receive all royalties on the sale of NARCAN® Nasal Spray up to $26.25 million dollars. Following that, the royalty rights will revert back to Opiant and SWK will receive a residual royalty of 10% on all royalties from the sale of NARCAN® Nasal Spray.

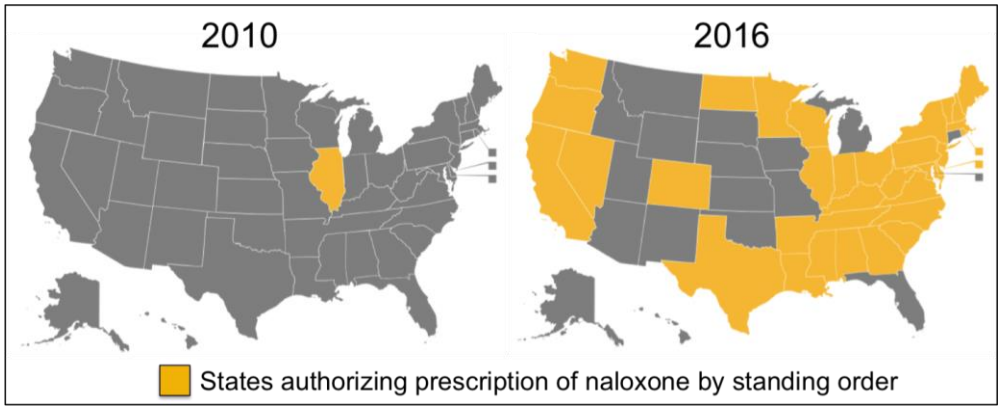
*Presidential Task Force Recommends Co-Prescribing of Opioid Overdoes Treatments*

On March 29, 2017, President Trump signed an Executive Order establishing the President's Commission on Combating Drug Addiction and the Opioid Crisis. The Commission issued a draft interim report on July 31, 2017 that included a number of different recommendations to help combat the increased use of drugs, particularly opioids. Among those is a recommendation that all states should have a standing order to allow dispensing of naloxone, that naloxone should be required to be co-prescribed with any high-risk opioid prescription, and that all law enforcement officials in the U.S. should carry naloxone.

> **Provide model legislation for states to allow naloxone dispensing via standing orders, as well as requiring the prescribing of naloxone with high-risk opioid prescriptions; we must equip all law enforcement in the United States with naloxone to save lives.**

*Source*: Whitehouse.gov

As the following chart shows, there has been a significant increase in the number of states that allow the prescribing of naloxone by standing order, however the President's Commission is pushing for all states to have a standing order for naloxone.




*Adapted from*: www.lawatlas.org

The requirement for co-prescribing of naloxone would be a significant development for companies that sell naloxone as there are an estimated 227 million opioid prescriptions written in the U.S. every year. In addition, as the opioid crisis continues to worsen, payers are likely to be receptive to covering naloxone with little to no co-pay. We believe Opiant would be a prime benefactor from a required co-prescription of naloxone, as NARCAN® Nasal Spray is a simple and affordable means by which to administer naloxone. However, even with the requirement for co-prescribing naloxone it would still be necessary to get patients comfortable with the idea of being prescribed an anti-overdose treatment and potentially paying for something that most would deem unnecessary.

## Conclusion

The $3.75 million payment from SWK occurred sooner than we had modeled for, and we believe this is evidence of NARCAN® Nasal Spray selling well above our estimates. Adapt Pharma is a private company, thus we are unable to ascertain exact revenues of NARCAN® Nasal Spray. Before monetizing the royalties, Opiant received $105,097, $234,498, and $524,142 in royalties for NARCAN® Nasal Spray for the first, second, and third quarters of 2016, respectively. Those royalty numbers point to a rapid rise in sales of NARCAN® Nasal Spray (we model for a composite 11% royalty), and with at least $25 million in sales for the first two quarters of 2017, we believe that SWK may receive $26.25 million in royalties and milestone payments sooner than we had originally thought. We now model for royalties to revert back to Opiant in 2020, with peak sales of NARCAN® Nasal Spray of $250 million.

Opiant's stock price has increased approximately 250% just in the past month, however we believe there may be upside to the story as the company now has additional capital to advance its pipeline in alcohol use disorder, bulimia nervosa, and cocaine use disorder. In addition, sales of NARCAN® Nasal Spray may continue to surpass our expectations, particularly if the recommendations of the Presidential Commission are enacted. Following the adjustments to our model, our valuation for Opiant has increased to $30 per share.

## PROJECTED FINANCIALS

**Opiant Pharmaceuticals, Inc.**
Income Statement

| Opiant Pharmaceuticals, Inc. | FY 2016 A | Oct-16 A | Jan-17 A | Apr-17 A | Jul-17 E | FY 2017 E | FY 2018 E | FY 2019 E |
|---|---|---|---|---|---|---|---|---|
| **NARCAN royalty** | $0.1 | $0.6 | $0.0 | $0.0 | $0.0 | $0.6 | $0.0 | $0.0 |
| *YOY Growth* | - | - | - | - | - | - | | |
| **Binge Eating Disorder** | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| *YOY Growth* | - | - | - | - | - | - | | |
| **Cocaine Use Disorder** | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| *YOY Growth* | - | - | - | - | - | - | | |
| **Licensing and Milestones** | $9.8 | $0.5 | $13.5 | $0.0 | $0.0 | $14.1 | $0.0 | $0.0 |
| *YOY Growth* | - | - | - | - | - | - | | |
| **Total Revenues** | **$9.9** | **$1.1** | **$13.5** | **$0.0** | **$0.0** | **$14.7** | **$0.0** | **$0.0** |
| *YOY Growth* | - | - | - | - | - | - | | |
| Cost of Sales | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| *Product Gross Margin* | - | - | - | - | - | - | | |
| Research & Development | $1.7 | $0.4 | $0.3 | $1.1 | $0.5 | $2.4 | $3.0 | $3.0 |
| General & Administrative | $15.6 | $1.2 | $1.4 | $2.0 | $1.4 | $6.0 | $11.0 | $11.0 |
| Selling Expenses | $0.3 | $0.0 | $1.2 | $0.1 | $0.1 | $1.4 | $0.4 | $0.5 |
| Other Expenses | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| Operating Income | ($7.7) | ($0.6) | $10.6 | ($3.2) | ($2.0) | $4.9 | ($14.4) | ($14.5) |
| *Operating Margin* | - | - | - | - | - | - | | |
| Non-Operating Expenses (Net) | ($0.1) | ($0.0) | $0.0 | $0.0 | ($0.0) | $0.0 | ($0.1) | ($0.1) |
| Pre-Tax Income | ($7.8) | ($0.6) | $10.6 | ($3.1) | ($2.0) | $4.9 | ($14.5) | ($14.6) |
| Income Taxes Paid | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| *Tax Rate* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| **Net Income** | **($7.8)** | **($0.6)** | **$10.6** | **($3.1)** | **($2.0)** | **$4.9** | **($14.5)** | **($14.6)** |
| *Net Margin* | - | - | - | - | - | - | | |
| **Reported EPS** | **($4.09)** | **($0.30)** | **$5.31** | **($1.55)** | **($0.87)** | **$2.36** | **($4.83)** | **($3.65)** |
| *YOY Growth* | - | - | - | - | - | - | | |
| Basic Shares Outstanding | 1.9 | 2.0 | 2.0 | 2.0 | 2.3 | 2.1 | 3.0 | 4.0 |

*Source: Zacks Investment Research, Inc.* *David Bautz, PhD*

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