Zacks Small-Cap Research

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Opiant Pharmaceuticals Inc. (OPNT-NASDAQ)

OPNT: Looking to Keep Momentum Going into Fiscal 2018…

Based on our probability adjusted DCF model that takes into account potential future revenues from treating opioid abuse, bulimia nervosa (BN), binge eating disorder (BED), and alcohol use disorder (AUD), OPNT is valued at $49/share. This model is highly dependent upon the commercial success of NARCAN® Nasal Spray and clinical success in treating BN, BED, and AUD.

Current Price (10/16/17)	$37.98
Valuation	**$49.00**

OUTLOOK

On October 13, 2017, Opiant Pharmaceuticals (OPNT) announced financial results for the fourth quarter of full fiscal year 2017 ending July 31, 2017. Fiscal 2017 was a transformative year for Opiant, as the company monetized the royalties for NARCAN® Nasal Spray, uplisted to the Nasdaq stock exchange, strengthened the leadership team with the appointment of a new Chief Financial Officer, and announced encouraging Phase 1 data for OPNT002 in Alcohol Use Disorder (AUD).

We anticipate the company continuing with a strong FY2018, with the initiation of a Phase 2 study in AUD before the end of calendar year 2017, the completion of enrollment in a Phase 2 study in bulimia nervosa in the first half of calendar year 2018, and continued preclinical work on the heroin vaccine candidate.

SUMMARY DATA

52-Week High	**$50.50**
52-Week Low	**$5.35**
One-Year Return (%)	**374.16**
Beta	**-0.94**
Average Daily Volume (sh)	**92,041**
Shares Outstanding (mil)	**2**
Market Capitalization ($mil)	**$77**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**64**
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 Pharmaceuticals, Inc. (OPNT) is a specialty pharmaceutical company developing treatments for substance use, eating disorders, and addiction disorders based on the company's expertise in opioid receptor antagonists. Opiant currently has one FDA approved drug, NARCAN® Nasal Spray, which is marketed by Adapt Pharmaceuticals through an exclusive collaboration.

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We anticipate the company continuing with a strong FY2018, with the initiation of a Phase 2 study in AUD before the end of calendar year 2017, the completion of enrollment in a Phase 2 study in bulimia nervosa in the first half of calendar year 2018, and continued preclinical work on the heroin vaccine candidate.

Opiant CEO Presents to President's Commission on Opioid Crisis

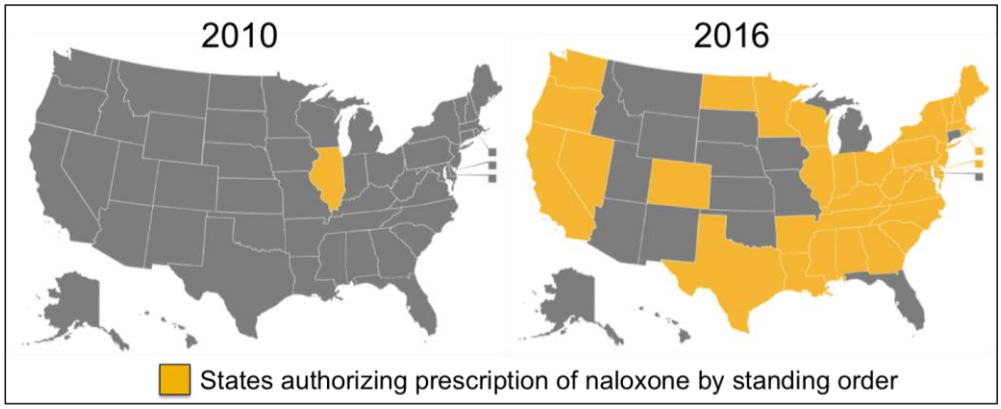
On Septemeber 25, 2017, Opiant announced that CEO Dr. Roger Crystal was invited to testify before the President's Commission on Combating Drug Addiction and the Opioid Crisis, which took place on Sept. 27, 2017. Dr. Crystal was asked to share his experience and perspective on Innovative Pain Management and Prevention Measures for Diversion, which included a discussion of the work Opiant is doing to address the problem of addiction in America.

Earlier this year, 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.

Opiant to Collaborate with Titan Pharmaceuticals on New Approach to Opioid Use Disorder Treatment

On Oct. 2, 2017, Opiant announced a collaboration with Titan Pharmaceuticals, Inc. (TTNP) to conduct a feasibility assessment of a subcutaneous implant using Titan's ProNeura™ sustained release technology containing an opioid antagonist, thus delivering a steady stream of drug into the patients' system for up to six months. Opioid addiction relapse is very high, and the ability to delivery a constant dose of an opioid antagonist could help patients remain opioid-free for an extended period of time, thus decreasing the probability of relapse, when the risk of overdose deaths is at its highest. We anticipate learning additional details about this collaboration in the coming months.

Financial Update

On October 13, 2017, Opiant announced financial results for the fourth quarter and full year of fiscal year (FY) 2017 that ended July 31, 2017. During the 4QFY17, Opiant generated revenue of approximately $3.75 million, compared to approximately $0.3 million during the corresponding period in 2016. The increase in revenue was due to the $3.75 million milestone payment earned under the royalty monetization agreement with SWK. General and administrative expenses were approximately $2.0 million for the 4QFY17, compared to approximately $1.2 million for the 4QFY16. The increase in expenses was primarily due to increased compensation expenses, consulting expenses, and legal fees. Research and development expenses were approximately $1.3 million for the 4QFY17, compared to approximately $0.2 million in 4QFY16. The increase was primarily due to compensation associated with the hiring of the Chief Scientific Officer and additional personnel in the UK office. Selling expenses were approximately $1.7 million for the 4QFY17, compared with approximately $0.3 million for the 4QFY16. The increase was primarily due to expenses associated with the royalty monetization agreement with SWK.

For the full year ended July 31, 2017, Opiant recorded revenue of approximately $18.4 million, compared to $9.9 million for FY16. The $8.5 million increase was primarily due to the recognition of net revenue of $17.5 million from the royalty monetization agreement with SWK and royalties arising from the sale of NARCAN Nasal Spray by Adapt Pharma. General and administrative expenses for FY17 were approximately $6.5 million, compared to $14.5 million for FY16. The decrease was primarily due to a $9.4 million reduction in stock based compensation during FY17 partially offset by increases in legal fees, accounting fees, insurance expense, and travel fees. Research and development expenses for FY17 were approximately $3.2 million, compared to $2.8 million in FY16. The increase was primarily due to expenses associated with the bulimia project and hiring of Dr. Skolnick as Chief Scientific Officer partially offset by a decrease in stock based compensation. Selling expenses in FY17 were approximately $1.7 million, an increase of approximately $1.3 million over FY16. The increase was due to expenses associated with the royalty monetization agreement with SWK.

Net income for FY17 was $6.6 million, or $3.27 per share, compared with a net loss of $7.8 million, or $4.09 per share, in FY16. As of July 31, 2017, Opiant had approximately $6.9 million in cash and cash equivalents, which we anticipate is sufficient to fund operations for at least the next 12 months. As of Oct. 10, 2017, the company had approximately 2.0 million shares of common stock outstanding, and when factoring in stock options and warrants a fully diluted share count of approximately 6.2 million.

Valuation

We recently modified our model for valuing NARCAN® Nasal Spray. We continue to believe that peak sales of approximately $250 million are possible, although if sales continue to ramp up quicker than anticipated that number may prove to be too conservative. We estimate that Opiant will begin receiving 90% of royalties on NARCAN® Nasal Spray in 2019, and that the company will also receive $15 million milestone payments in 2019 and in 2021 based on sales of >$100 million and >$200 million, respectively. The company has patent protection through 2035, although there are litigation proceedings occurring now that may result in a generic version of NARCAN® Nasal Spray entering the market before then, depending on the outcome of those cases. Using a 12% discount rate gives a net present value for NARCAN® Nasal Spray of approximately $197 million.

In addition to NARCAN® Nasal Spray, Opiant has a development pipeline of nasally administered opioid antagonists for treating bulimia nervosa (BN), binge eating disorder (BED), and alcohol use disorder (AUD). The company is expected to report results from a Phase 2 study of OPNT001 in 80 patients with BN in 2018.

For BN, our estimates are for an NDA in 2020 and approval in 2021. There are approximately 3.3 million Americans who suffer from BN and we believe approximately 1/3rd of these individuals seek treatment. Based on a conservative 10% market share we model for potential peak revenues of approximately $300 million. We assign a 12% discount rate and a 50% probability of approval to arrive at a net present value for the BN program of $27 million.

For BED, we model for an NDA filing in 2020 and approval in 2021. We estimate there are approximately eight million individuals who suffer from BED in the U.S. and that 45% of them will seek treatment for their condition leading to peak sales of approximately $150 million. We assign a 12% discount rate and a 50% probability of approval to arrive at a net present value for the BED program of $19 million.

For AUD, we anticipate a clinical trial initiating in late 2017 and we model for an NDA filing in 2020 and approval in 2021. We estimate potential peak revenues of approximately $300 million. We assign a 12% discount rate and a 50% probability of approval to arrive at a net present value for the AUD program of $36 million.

Combining the net present value for each of the company's programs along with the current cash total and the potential cash brought in from exercise of warrants leads to a value of $303 million for the company. Dividing by the fully diluted share count of 6.2 million (2.0 million common shares + 3.8 million options + 0.4 million exercisable warrants) leads to a valuation of $49.

PROJECTED FINANCIALS

Opiant Pharmaceuticals, Inc.
Income Statement

Opiant Pharmaceuticals, Inc.	FY 2017 A	Oct-17 E	Jan-18 E	Apr-18 E	Jul-18 E	FY 2018 E	FY 2019 E	FY 2020 E
NARCAN royalty	$0.6	$0.0	$0.0	$0.0	$0.0	$0.0	$24.7	$22.7
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	$17.8	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
YOY Growth	-	-	-	-	-	-		
Total Revenues	**$18.4**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$24.7**	**$22.7**
YOY Growth	-	-	-	-	-	-		
Cost of Sales	$0	$0	$0	$0	$0	$0	$0	$0
Product Gross Margin	-	-	-	-	-	-		
Research & Development	$3.2	$0.8	$0.9	$0.9	$1.1	$3.7	$4.0	$4.2
General & Administrative	$6.5	$1.5	$1.5	$1.7	$1.8	$6.5	$8.0	$8.5
Selling Expenses	$1.7	$0.2	$0.2	$0.2	$0.2	$0.8	$1.0	$1.0
Other Expenses	$0	$0	$0	$0	$0	$0	$0	$0
Operating Income	$7.1	($2.5)	($2.6)	($2.8)	($3.1)	($11.0)	$11.7	$9.0
Operating Margin	-	-	-	-	-	-		
Non-Operating Expenses (Net)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	$7.1	($2.5)	($2.6)	($2.8)	($3.1)	($11.0)	$11.7	$9.0
Income Taxes Paid	$1	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	**$6.6**	**($2.5)**	**($2.6)**	**($2.8)**	**($3.1)**	**($11.0)**	**$11.7**	**$9.0**
Net Margin	-	-	-	-	-	-		
Reported EPS	**$3.27**	**($1.19)**	**($1.24)**	**($1.27)**	**($1.41)**	**($5.12)**	**$4.68**	**$3.00**
YOY Growth	-	-	-	-	-	-		
Basic Shares Outstanding	2.0	2.1	2.1	2.2	2.2	2.2	2.5	3.0

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

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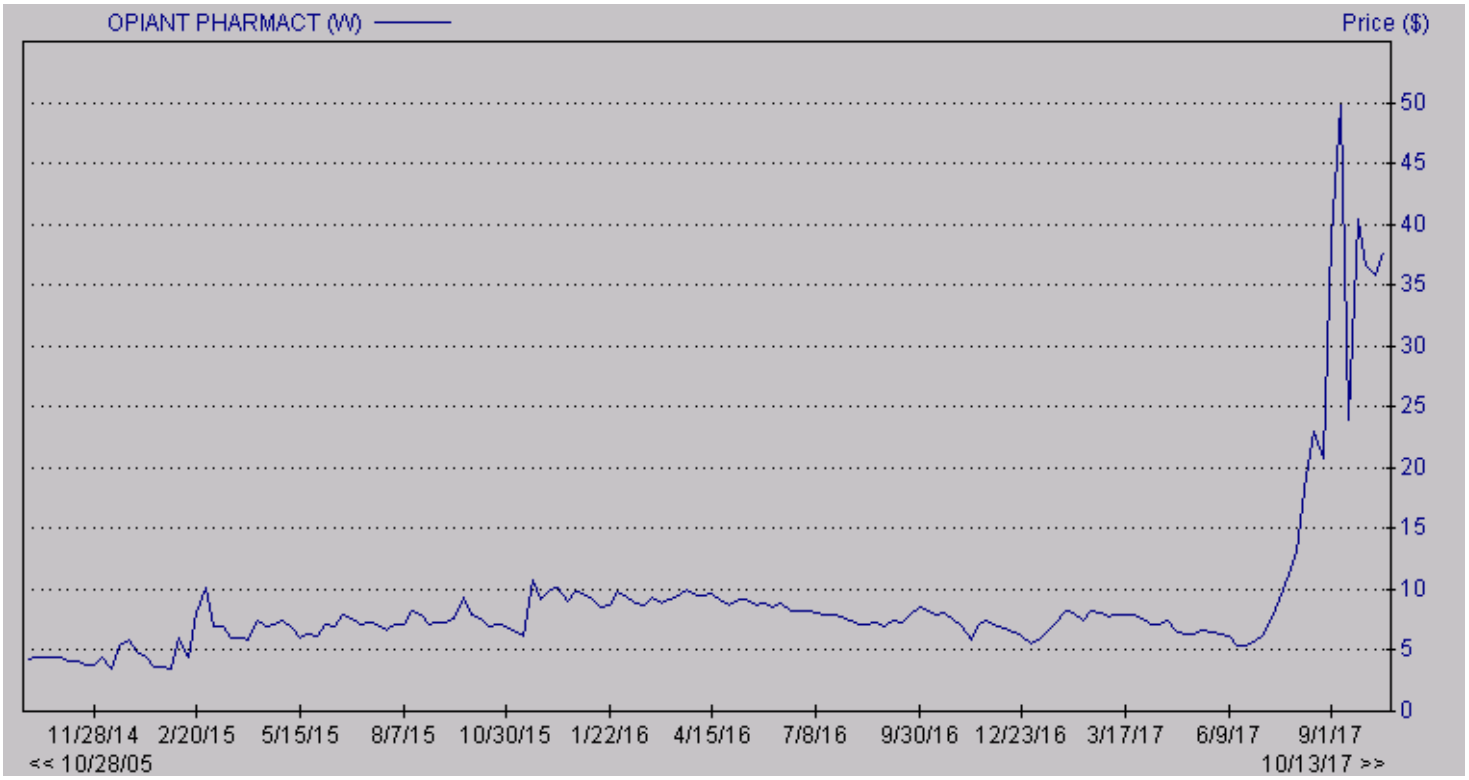
HISTORICAL STOCK PRICE



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