Zacks Small-Cap Research

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Opiant Pharmaceuticals Inc. (OPNT-NASDAQ)

OPNT: Estimating When Royalties to NARCAN® Nasal Spray Revert Back to Opiant…

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 (09/19/17)	$27.56
Valuation	**$49.00**

OUTLOOK

Opiant Pharmaceuticals Inc. (OPNT) stock has been on an amazing run! Since the end of June, the stock has moved from just over $5 per share to the current price near $30. We believe part of this is due to the increasing awareness of the country's opioid epidemic and products such as NARCAN® Nasal Spray that can be used to prevent opioid overdose deaths.

One of the key variables in valuing Opiant has to do with when royalty rights to NARCAN® Nasal Spray will revert back to the company after having sold them to SWK Holdings Corp. in Dec. 2016. In this report, we examine the different variables associated with that agreement and attempt to determine more precisely when Opiant will regain the royalty rights.

SUMMARY DATA

52-Week High	**$50.50**
52-Week Low	**$5.35**
One-Year Return (%)	**263.11**
Beta	**-0.75**
Average Daily Volume (sh)	**124,528**
Shares Outstanding (mil)	**2**
Market Capitalization ($mil)	**$56**
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

Royalty Agreement With SWK Holdings

On December 15, 2016, Opiant Pharmaceuticals, Inc. (OPNT) announced an agreement with SWK Holdings Corporation whereby SWK acquired the rights to certain royalty and milestone payments related to the sale of NARCAN® Nasal Spray for an initial payment of $13.7 million and the potential for an additional $3.75 million if certain future net sales milestones are met.

On August 10, 2017, Opiant announced an additional $3.75 million payment from SWK 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.

Since the additional payment was made by SWK, it will receive all royalties on the sale of NARCAN® Nasal Spray up to $26.25 million dollars and a residual royalty of 10% on all subsequent royalties from the sale of NARCAN® Nasal Spray.

Agreement With Adapt Pharma

Opiant initially signed the commercialization agreement with Adapt Pharma in December 2014. According to the agreement, Opiant is set to receive sales milestone payments for annual net sales based on the following thresholds:

Threshold Annual Net Sales Levels	Milestone Payment
$30 Million	$2 Million
$40 Million	$6 Million
$55 Million	$10 Million
$75 Million	$15 Million
$200 Million	$15 Million

Source: Opiant SEC Filing

Adapt is paying tiered royalties on the sale of NARCAN® Nasal Spray according to the following:

Net Sales of NARCAN® Nasal Spray	Royalty Rate
<$50 Million	6%
≥$50 Million < $75 Million	7.5%
≥$75 Million < $100 Million	9%
≥$100 Million < $200 Million	10%
≥$200 Million	12%

Source: Opiant SEC Filing

Estimating When Royalty Rights Will Revert to Opiant

Adapt is a private company, thus we are not able to determine sales of NARCAN® Nasal Spray on a quarterly basis, however based on the fact that >$25 million in sales were recorded for the first two quarters of 2017 it is possible to make some reasonable assumptions.

1. The $30 million and $40 million annual sales milestone payments are very likely to be paid this year, based on estimated full year sales of NARCAN® Nasal Spray of approximately $50 million (using the run rate from the first

two quarters of 2017). We conservatively do not anticipate Adapt selling greater than $55 million in 2017. Thus, we estimate SWK will acquire $8 million in milestone payments in 2017.
2. Based on $50 million in net sales for 2017, we estimate that SWK will receive $3 million in royalties ($50 million x 6%). Thus, we estimate grand total of payments received by SWK in 2017 from milestones and royalties to be $11 million.
3. For 2018, we believe that strong sales of NARCAN® Nasal Spray will continue, and we estimate total net sales of $70 million. This will trigger a $10 million milestone payment and royalty payments of $4.5 million ($50 million x 6% + $20 million x 7.5%) for a total of $14.5 million to SWK. This will bring the total payments received by SWK to $25.5 million, with only $750,000 left before royalty rights revert back to Opiant.
4. Even if sales of NARCAN® Nasal Spray were to continue ramping up considerably in the second half of 2017, we do not believe the royalty rights would revert back to Opiant before the end of 2018. For example, if Adapt were to record $60 million in sales of NARCAN® Nasal Spray in 2017, that would result in SWK receiving $18 million in milestone payments and $3.75 million in royalties for a total of $21.75 million. This would leave an additional $5 million to be paid in 2018 before royalty rights revert to Opiant, and even with sales of $90 million for the full year, it would take until the end of the year for SWK to receive more than $5 million. Thus, royalty rights reverting to Opiant at the end of 2018/early 2019 is our current best estimate.

New Chief Financial Officer

On September 5, 2017, Opiant announced the hiring of David O'Toole as Chief Financial Officer (CFO), to replace outgoing CFO Kevin Pollack. Mr. O'Toole has over 30 years of accounting and finance experience, with nearly half of his career focused on the life sciences industry. He was most recently CFO of Soleno Therapeutics, Inc., where he managed the public offering in 2014 and was involved in financing transactions that raised over $40 million for the company. Mr. O'Toole has significant experience in SEC reporting and investor relations, and is an important addition to Opiant during its growth and expansion, which includes recently uplisting to the Nasdaq and acquiring shareholder approval to change the domicile of the company to Delaware from Nevada.

Valuation

Based on the information provided above we have 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 the first half of 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 2018 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 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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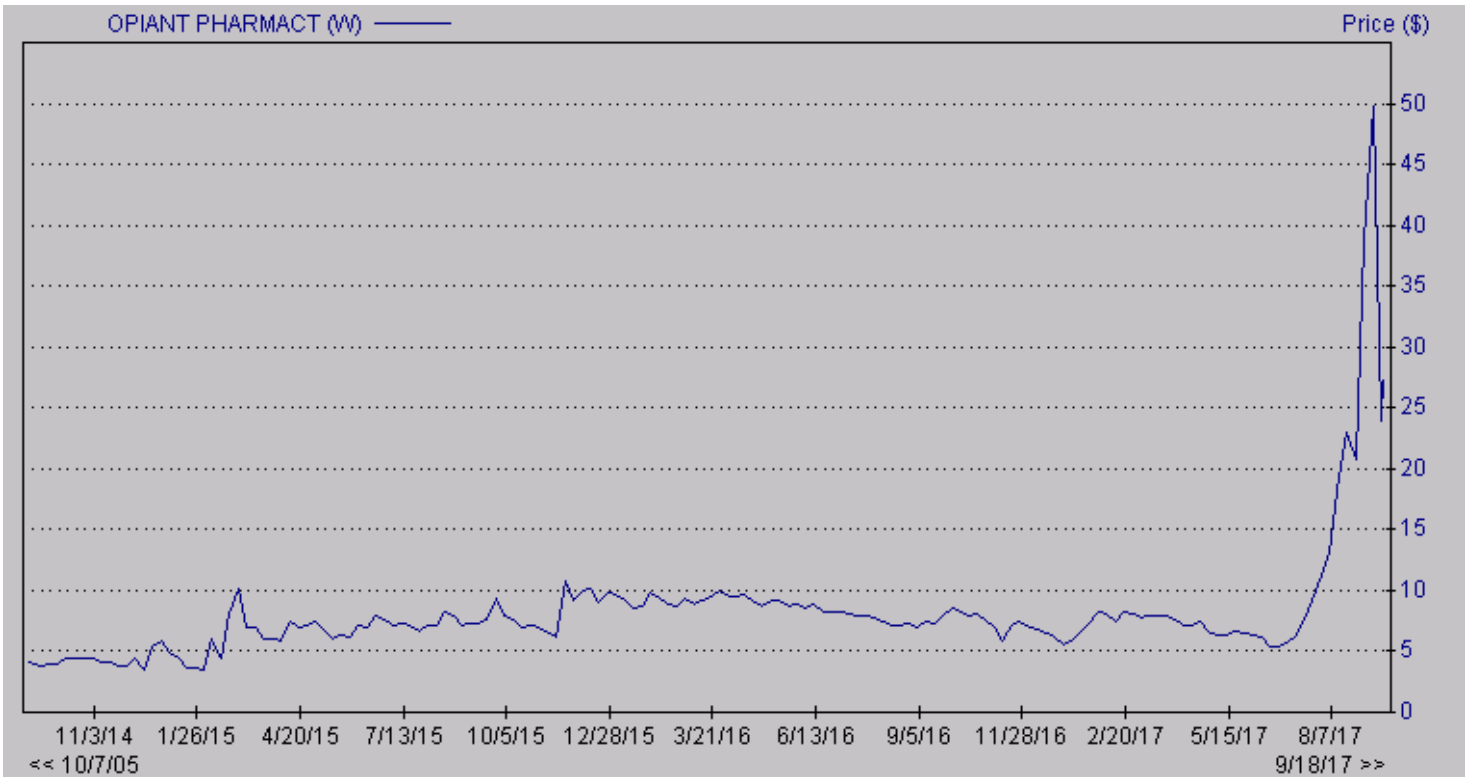

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