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Correvio Pharma Corp. (CORV - NASDAQ)

Cipher Transaction Done; Focus Back to Europe

Based on our DCF model and a 15% discount rate, Correvio is valued at approximately $4.00 per share. Our model applies a 70% probability of EMA approval and European commercialization for Trevyent.

Current Price (5/21/2018)	$2.28
Valuation	**$4.00**

OUTLOOK

Correvio has a portfolio of six hospital-based medicines in cardiology and infectious disease. In November 2013, former entity Cardiome acquired Aggrastat and Correvio in a transformation acquisition that provided the infrastructure for recent and future acquisition growth.

The company's strategy is to acquire drugs in existing and adjacent spaces of hospital care to leverage their commercialization platform. Currently, there are five revenue-generating products.

The groundwork undertaken for Xydalba in 2017 combined with new sales from Zevtera should accelerate growth for 2018. Sales from Esmocard Lyo and potentially other additions may also augment the growth trajectory.

In 2015, the company signed a license agreement for commercialization of Trevyent in the EU, Canada and Middle East. An MAA and NDS are expected to be filed for approval in the EU and Canada respectively in 2018 and sales are expected in 2019. Additional upside exists as Trevyent is approved and commercialized.

SUMMARY DATA

52-Week High	**4.84**
52-Week Low	**1.29**
One-Year Return (%)	**-45.7**
Beta	**-0.94**
Average Daily Volume (sh)	**178,577**
Shares Outstanding (mil)	**34.9**
Market Capitalization ($mil)	**79.5**
Short Interest Ratio (days)	**0.61**
Institutional Ownership (%)	**N/A**
Insider Ownership (%)	**N/A**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**2,943**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2018 Estimate	**N/A**
P/E using 2019 Estimate	**N/A**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue

(In millions of US$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	$5.2 A	$5.8 A	$6.0 A	$7.0 A	$24.0 A
2018	$6.5 A	$7.2 E	$7.3 E	$8.6 E	$29.5 E
2019					$34.1 E
2020					$47.0 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	-$0.20 A	-$0.26 A	-$0.20 A	-$0.25 A	-$0.90 A
2018	-$0.24 A	-$0.20 E	-$0.16 E	-$0.13 E	-$0.73 E
2019					-$0.57 E
2020					-$0.33 E

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What's New

1Q:18 Operational and Financial Results

Correvio Pharma Corp. (NASDAQ: CORV) issued a press release reporting first quarter 2018 results on May 15, 2018, and filed its first quarter financial statements and management discussion & analysis. The company posted quarterly revenues of $6.5 million, and net loss of ($0.24) per share. During the first quarter and to date, Correvio announced a strategic transaction with Cipher (TSX: CPH) and subsequently closed it, changing their name and ticker symbol in the process. Several new regions were launched with members of the Correvio portfolio, SteadyMed received a proposed acquisition and the Phase 3 trial for Brinavess was launched in China. Importantly, as part of the transaction with Cipher, Correvio has received about US$20 million, which should provide sufficient capital to achieve operationally breakeven levels.

The first quarter of 2018 posted revenues of $6.5 million, a 26% increase over the prior year and below our estimates of $6.8 million. The addition and strength of Zevtera/Mabelio was a contributing factor to the increase. Gross margins were down by 360 basis points on a shift in revenue to lower margin antibiotic products in the quarter.

Sales, general and administrative expenses were $10.9 million, increasing 33% as the company increased the size of its European direct sales force and the recognition of business development and transaction costs related to the Cipher transaction. Interest expense increased in 1Q:18 to $1.1 million due to higher debt levels. The net of these revenue and expense items along with a small tax expense resulted in a quarterly net loss of ($8.5) million or ($0.24) per share which compares to 1Q:17 net loss of ($6.3) million or ($0.20) per share. We estimated a net loss of ($0.18) per share, which excluded costs related to the Cipher transaction. Quarter-end cash stands at $13.6 million compared to $22.1 million at the end of 2017. This excludes the approximately $20 million from the Cipher deal which was closed after the end of the reporting period. Cash burn in 1Q:18 was ($8.7) million, greater than 1Q:17 levels which did not include additional sales force members or expenses related to the Cipher transaction. Cash from financing was a modest $0.2 million due to exercise of stock options.

Following the Cipher transaction, we see sufficient cash on the balance sheet to get the company into 2019 with no other need for financing. Based on management commentary, we see a high likelihood that a transaction in the anti-infective space will occur that will provide additional revenues with minimal additional operational cost, which will improve the company's cash flow profile.

Cipher Pharmaceuticals

On March 20, 2018, Correvio and Cipher Pharmaceuticals (TSX: CPH) announced an arrangement where Cipher will acquire the Correvio's Canadian business portfolio. The portfolio includes Aggrastat, Brinavess, Esmocard, Xydalba and Trevyent. The transaction was consummated by Cipher acquiring all of the shares of Cardiome, followed by a restructuring of Cardiome where its shareholders will receive shares of the new entity in a 1:1 ratio. The deal will provide cash of US$20 million to the company and will lighten the cost structure related to Canadian sales and regulatory efforts. It will also allow further focus on Cardiome's primary market in Europe.

The transaction was executed on May 15, 2018, followed by an official name change to Correvio and new ticker symbol CORV. The transaction provides a substantial level of NOLs along with the Canadian rights to the previous entity's portfolio and the salespeople associated with it. The amount of the NOLs transferred was approximately CAD$200 million. There remains CAD$100 million in NOLs that Correvio will be able to use against eventual profits in Europe which will remain on the Correvio balance sheet.

Trevyent

On April 30, United Therapeutics (UTHR) and SteadyMed (STDY) announced a merger agreement where shareholders of SteadyMed will receive $216 million in a deal that is expected to be complete in 3Q:18. SteadyMed will maintain its current supply chain partners and nothing is expected to change with the arrangement between SteadyMed and Correvio regarding Treyvent. The combination with a stronger partner that has development, regulatory and commercialization experience could improve the position of Trevyent in the US as well as provide a more secure supply chain for Correvio. We believe that the acquisition is a strategy by United Therapeutics to extend the life cycle of its current product, Remodulin, which is expected to lose patent protection in 2018.

The FDA accepted the response from SteadyMed regarding the refusal to file letter and concluded that no additional work was required to resubmit the drug application. With this hurdle surpassed, a resubmission and response are expected in the latter half of 2018.

Commercialization

There are a several products that are working their way through the regulatory process in the anti-infective space that would be a good complement to the current portfolio and that should be approvable in 2019. Correvio is looking at these candidates and is likely to add one to its portfolio in the next year. Management is confident they will be able to obtain funding from partners to pursue such a deal. This approach is an attractive one as there are few incremental costs to the sales and marketing effort as there is already a force in place with contacts in the key hospitals the candidates would target. High incremental margins would be rapidly accretive and could help Correvio achieve profitability more quickly than it otherwise might.

Correvio made additional progress in the first months of the year, advancing its drug products into new markets and forging additional and stronger relationships with partners. The leading product, Aggrastat, saw an expansion of its indication in China to include patients with STEMI, and the approval of a high dose bolus regimen in Canada. The company also entered into a distribution agreement with ZAO Firma Euroservice, who is expected to submit an MMA to Russian regulatory authorities in 4Q:18. Partner Aspen launched Brinavess in South Africa and partner ATCO Lab submitted an MAA in Pakistan. Brinavess received approval in the UAE and partner Algorithm expects to commence commercialization activities for the drug in 2Q:18. Partner Eddingpharm has enrolled its first patients in a Phase III trial for atrial fibrillation in China with an expected 240 person cohort. Xydalba began its launch in Sweden, Finland and the Republic of Ireland. Esmocard saw first sales in Italy and France in the fourth quarter, and wins so far total $3.4 million over the next four years.

Significant Event Timeline

Correvio has a number of recent and upcoming milestones related to new geographic launches, interacting with regulatory authorities regarding the approval process and consummating the transaction with Cipher. Over the forecast period we anticipate the following events to take place.

- April 30, 2018 – United Therapeutics Announcement to acquire SteadyMed
- May 2018 – Conclude transaction with Cipher and Ticker Change
- May 2018 – First Patient Enrolled in Phase 3 Brinavess Trial in China
- 2Q:18 – UAE Launch of Brinavess
- 3Q:18 – Close of United Therapeutics and SteadyMed Acquisition
- 4Q:18 – ZAO Firma Euroservice to Submit MAA for Aggrastat in Russia
- 4Q:18 – Belgium and Netherlands Launch of Xydalba
- 4Q:18 – Trevyent NDA Acceptance Anticipated Followed by Correvio EMA Filing
- 2Q:18 – Launch of Zevtera/Mabelio in Spain & Ireland
- 4Q:18 – Launch Xydalba in Belgium & Netherlands
- FY:19 – Filing for approval of Trevyent in EU
- FY:20 – Launch of Trevyent in EU and other regions

Summary

Correvio continues to execute on its efforts to obtain regulatory approval for its portfolio of products, create new relationships with partners for distribution outside its core areas and penetrate individual countries with price negotiation efforts and product inclusion on hospital formularies. We adjust our 2018 forecasts to reflect the minor revenue and expense items from Canadian operations as well as for 1Q:18 actuals.

We expect a sharp increase in 2018 revenue growth as last year's groundwork produces increased penetration with a larger salesforce and additional products to sell. The transaction with Cipher will produce a more focused and streamlined company with additional capital that should help support operation costs until 2019. We maintain our target price of $4.00 per share.

PROJECTED FINANCIALS

Correvio Pharma Corp. - Income Statement

Correvio Pharma Corp (USD)	2017 A	Q1 A	Q2 E	Q3 E	Q4 E	2018 E	2019 E	2020 E
Product & royalty revenues	$23.8	$6.5	$7.1	$7.2	$8.5	$29.4	$33.9	$46.8
Licensing & other fees	$0.2	$0.0	$0.1	$0.1	$0.1	$0.2	$0.2	$0.2
Total Revenues	**$24.0**	**$6.5**	**$7.2**	**$7.3**	**$8.6**	**$29.5**	**$34.1**	**$47.0**
	-4.9%	25.9%	24.3%	20.4%	22.2%	23.0%	15.4%	37.8%
Cost of Product Sales	$6.8	$2.3	$2.0	$2.0	$2.4	$8.7	$10.2	$14.0
Gross Margin	71.5%	64.7%	72.0%	72.0%	72.0%	70.4%	70.0%	70.0%
SG&A	$36.7	$10.9	$10.3	$9.2	$9.3	$39.7	$39.0	$39.0
Amortization	$3.5	$1.0	$1.0	$1.0	$1.0	$3.8	$3.6	$3.6
Other	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Operating Income	($23.0)	($7.6)	($6.1)	($4.9)	($4.0)	($22.7)	($18.7)	($9.7)
Operating Margin	*-95.7%*	*-116.4%*	*-85.5%*	*-68.2%*	*-47.1%*	*-76.7%*	*-54.8%*	*-20.5%*
Interest Expense	$5.7	$1.1	$1.3	$1.3	$1.3	$5.0	$5.4	$4.9
Total Other Income	$0.8	($0.3)	$0.0	$0.0	$0.0	($0.3)	$0.0	$0.0
Pre-Tax Income	($29.4)	($8.4)	($7.4)	($6.2)	($5.3)	($27.4)	($24.1)	($14.6)
Taxes & Other	$0.4	$0.1	$0.0	$0.0	$0.0	$0.1	$0.0	$0.0
Tax Rate	*-1.2%*	*-0.7%*	*0.0%*	*0.0%*	*0.0%*	*-0.2%*	*0.0%*	*0.0%*
Net Income	($29.8)	($8.5)	($7.4)	($6.2)	($5.3)	($27.4)	($24.1)	($14.6)
Reported EPS	**($0.90)**	**($0.24)**	**($0.20)**	**($0.16)**	**($0.13)**	**($0.73)**	**($0.57)**	**($0.33)**
YOY Growth	*15.8%*	*22.9%*	*-23.6%*	*-18.1%*	*-45.4%*	*-18.6%*	*-21.5%*	*-42.2%*
Shares Outstanding	33.2	34.7	37.0	39.0	39.5	37.5	42.0	44.0

Source: Company Filing // Zacks Investment Research, Inc. Estimates

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HISTORICAL STOCK PRICE

Correvio Pharma Corp. – Five Year Price Chart[1]



[1] Chart provided courtesy of Yahoo Finance.

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