Zacks Small-Cap Research

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August 29, 2018
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# Opiant Pharmaceuticals, Inc.

## (OPNT-NASDAQ)

### *OPNT: Adapt Pharma® Acquired for $650 Million…*

Based on our probability adjusted DCF model that takes into account potential future revenues from opioid antagonists, eating disorder treatments, and alcohol use disorder (AUD) treatments, OPNT is valued at $57/share. This model is highly dependent upon the commercial and clinical success of opioid antagonists and clinical success in treating eating disorders and AUD.

| | |
|---|---|
| Current Price (08/29/18) | $15.66 |
| **Valuation** | **$57.00** |

## OUTLOOK

On August 28, 2018, Emergent Biosolutions Inc. (EBS) announced the acquisition of Adapt Pharma® for an upfront payment of $650 million and another $100 million in potential sales milestones. Adapt Pharma currently markets NARCAN® Nasal Spray, for which Opiant Pharmaceuticals, Inc. (OPNT) receives royalties. Emergent estimates 2019 sales of NARCAN® Nasal Spray will be between $200 - $220 million, net of royalty payments to Opiant. We had previously estimated $225 million in 2019 sales of NARCAN Nasal Spray in 2019, which would result in royalty payments to Opiant of $31.6 million (including a $15 million milestone payment for sales exceeding $200 million in a calendar year). Importantly, this transaction shows the potential for OPNT003, an intranasal form of nalmefene being developed by Opiant that would serve as a long-lasting opioid overdose treatment.

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$50.50** |
| **52-Week Low** | **$12.89** |
| **One-Year Return (%)** | **-43.35** |
| **Beta** | **-0.84** |
| **Average Daily Volume (sh)** | **27,347** |
| **Shares Outstanding (mil)** | **3** |
| **Market Capitalization ($mil)** | **$44** |
| **Short Interest Ratio (days)** | **N/A** |
| **Institutional Ownership (%)** | **5** |
| **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 2018 Estimate** | **N/A** |
| **P/E using 2019 Estimate** | **N/A** |

| | |
|---|---|
| **Risk Level** | **High** |
| **Type of Stock** | **Small-Growth** |
| **Industry** | **Med-Drugs** |

## ZACKS ESTIMATES

### Revenue

(In millions of $)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2017 | 0.0 A | 0.0 A | 0.0 A | 11.8 A | 11.8 A |
| 2018 | 1.7 A | 3.2 A | 4.7 E | 5.2 E | 14.8 E |
| 2019 | | | | | 40.5 E |
| 2020 | | | | | 26.2 E |

### Earnings per Share

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2017 | -$0.30 A | $5.31 A | -$1.55 A | -$0.17 A | $0.66 A |
| 2018 | -$3.68 A | -$0.52 A | -$0.11 E | -$0.10 E | -$2.20 E |
| 2019 | | | | | $7.40 E |
| 2020 | | | | | $1.23 E |

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## WHAT'S NEW

**Business Update**

*Acquisition of Adapt Pharma® Validates Opioid Overdose Treatment Market*

On August 28, 2018, Emergent Biosciences Inc. (EBS) announced the acquisition of Adapt Pharma® for $635 million with the potential for another $100 million in sales-based milestones through 2022. Adapt markets NARCAN® Nasal Spray for the treatment of opioid overdose, for which Opiant Pharmaceuticals, Inc. (OPNT) receives tiered royalties.

Emergent also announced that projected 2019 revenues for NARCAN® Nasal Spray will be $200-$220 million, net of royalty payments to Opiant. Those royalty payments to Opiant are based on the agreement signed with Adapt in 2014 according to the following table. Opiant gets 90% of the royalty payment, with the other 10% going to SWK Holdings Corporation based on the agreement signed in 2016.

| 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

Based on gross revenues of approximately $250 million in 2019, we estimate that Opiant would receive approximately $34.3 million in royalty and milestone payments (and result in net revenues to Emergent of approximately $215 million). This assumes that sales of NARCAN® Nasal Spray do not exceed $200 million in 2018, as Opiant is owed a $15 million milestone at that threshold.

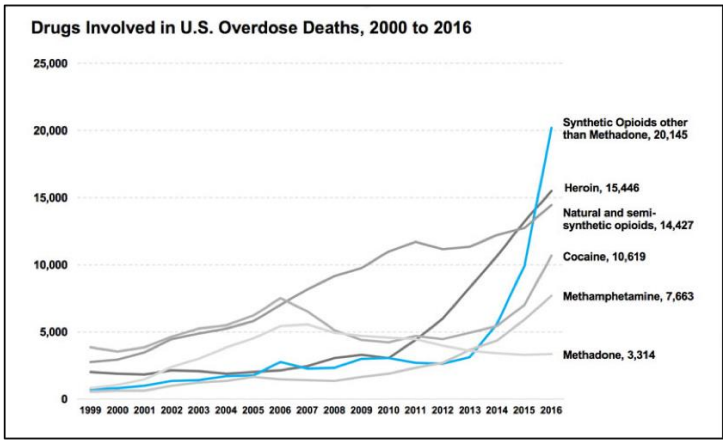
Perhaps the most important aspect of the Adapt acquisition is that it validates the size of the opioid overdose treatment market and highlights the potential of OPNT003, an intranasal formulation of nalmefene for the treatment of opioid overdose currently being developed by Opiant.

Opiant has successfully completed a Phase 1 study of intranasally administered nalmefene that showed rapid increases in plasma levels with an onset faster than an intramuscular injection along with a long half-life (6.7-7.8 hours). These data formed the basis for a meeting with the FDA regarding the planned development of OPNT003. Based on the guidance received from the FDA, Opiant believes it will be in a position to file an NDA in 2020. The essential studies remaining to be performed are a larger pharmacokinetic study and a stability study, as the FDA requires at least one year of stability data.

OPNT003 is being funded by a $7.4 million grant from the National Institute on Drug Abuse (NIDA), which should get the compound to the NDA-ready stage. Opiant owns all commercial rights to OPNT003 and the company's prospects for partnering remain wide open at this point, should it choose to go that route. We believe the valuation assigned to NARCAN® Nasal Spray by the Emergent acquisition shows what a successful opioid overdose treatment is potentially worth. However, it does not take into effect OPNT003's more favorable pharmacokinetic profile, which could lead to it being a best-in-class drug. Given the rise in overdose deaths due to synthetic opioids such as fentanyl and carfentanil (see discussion below), which are more potent and have longer half-lives, OPNT003 may become the preferred opioid overdose reversal product due to its much longer half-life than naloxone.

*Why OPNT003 is Necessary*

The following chart shows the number of overdose deaths in the U.S. from certain drugs, with the rapid rise in deaths from synthetic opioids just since 2013 particularly striking. This increase in synthetic opioid deaths has led the National Institutes of Health (NIH) to call for improved opioid antagonists that are capable of counteracting their effects (Volkow *et al.*, 2017).




*Source*: Centers for Disease Control

Synthetic opioids such as fentanyl and carfentanil are particularly problematic due to their potency and longer half-lives. For example, heroin has a half-life of approximately 30 minutes while fentanyl's half-life is two to four hours, thus necessitating opioid antagonism for an extended period of time. Naloxone has a half-life of approximately 1-2 hours and typically requires repeated administration during the treatment of someone suffering from a fentanyl overdose.

Nalmefene is an opioid antagonist with a much longer half-life than naloxone (7-9 hours). It was approved by the FDA in 1995 as an injectable treatment for opioid overdose sold under the brand name Revex®, however Baxter discontinued it in the U.S. in 2008. Opiant has developed an intranasally administered nalmefene formulation using the Intravail® technology, which was developed by Aegis Therapeutics, LLC. It comprises a broad class of chemically synthesizable transmucosal absorption enhancement agents to allow the intranasal (although other routes of administration are available including oral, rectal, ocular, etc.) administration of therapeutics up to 30,000 Daltons molecular weight.

We believe the opioid overdose market is going to continue to expand, thus OPNT003 and NARCAN® Nasal Spray could be simultaneously successful products, however given the favorable characteristics of OPNT003 and the continued increase in deaths from fentanyl overdoses, it is likely that OPNT003 would become the opioid overdose treatment of choice.

## Conclusion

The acquisition of Adapt Pharma for $650 million is very good news for Opiant as it validates the size of the opioid overdose market and shows what a follow-on product may potentially be worth. We have made slight modifications to our model based on Emergent's guidance for 2019 NARCAN® Nasal Spray sales (increased to $250 million from $225 million). Our current NPV for OPNT003 is $154 million based on sales beginning in 2021, peaking at $300 million, and Opiant entering into a partnership with a tiered royalty rate (blended rate ~11%). The stock is up approximately 50% on the news of Adapt's acquisition, however we believe there is still plenty of upside left based on the potential for OPNT003 and the rest of the company's pipeline. Our current valuation is $57 per share, and with a market cap of only approximately $65 million and the potential for over $30 million in revenue in 2019 we believe Opiant is currently very undervalued.

## PROJECTED FINANCIALS

**Opiant Pharmaceuticals, Inc.**
Income Statement

| Opiant Pharmaceuticals, Inc. | Five Months Ending Dec-17 | 1Q18 A | 2Q18 A | 3Q18 E | 4Q18 E | 2018 E | 2019 E | 2020 E |
|---|---|---|---|---|---|---|---|---|
| NARCAN royalty | $11.7 | $1.6 | $3.1 | $4.3 | $4.6 | $13.6 | $34.3 | $26.2 |
| *YOY Growth* | - | - | - | - | - | - | | |
| OPNT003 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $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* | - | - | - | - | - | - | | |
| Bulimia Nervosa | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| *YOY Growth* | - | - | - | - | - | - | | |
| Licensing, Milestones, and Grants | $0.1 | $0.1 | $0.1 | $0.4 | $0.6 | $1.2 | $6.2 | $0.0 |
| *YOY Growth* | - | - | - | - | - | - | | |
| **Total Revenues** | **$11.8** | **$1.7** | **$3.2** | **$4.7** | **$5.2** | **$14.8** | **$40.5** | **$26.2** |
| *YOY Growth* | - | - | - | - | - | - | | |
| Cost of Sales | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| *Product Gross Margin* | - | - | - | - | - | - | | |
| Research & Development | $2.5 | $2.4 | $1.6 | $2.0 | $2.5 | $8.5 | $10.0 | $10.0 |
| General & Administrative | $5.9 | $3.0 | $2.9 | $3.0 | $3.0 | $11.8 | $12.0 | $12.5 |
| Selling Expenses | $0.4 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 | $0.0 |
| Other Expenses | $1 | $5.6 | $0 | $0 | $0 | $0 | $0 | $0 |
| Operating Income | $1.5 | ($9.3) | ($1.3) | ($0.3) | ($0.3) | ($5.6) | $18.5 | $3.7 |
| *Operating Margin* | - | - | - | - | - | - | | |
| Non-Operating Expenses (Net) | $0.0 | ($0.0) | ($0.1) | $0.0 | $0.0 | ($0.1) | $0.0 | $0.0 |
| Pre-Tax Income | $1.5 | ($9.3) | ($1.4) | ($0.3) | ($0.3) | ($5.7) | $18.5 | $3.7 |
| Income Taxes Paid | $0 | $0 | $0 | $0 | $0 | $0 | $0 | $0 |
| *Tax Rate* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| **Net Income** | **$1.4** | **($9.3)** | **($1.4)** | **($0.3)** | **($0.3)** | **($5.7)** | **$18.5** | **$3.7** |
| *Net Margin* | - | - | - | - | - | - | | |
| **Reported EPS** | **$0.66** | **($3.68)** | **($0.52)** | **($0.11)** | **($0.10)** | **($2.20)** | **$7.40** | **$1.23** |
| *YOY Growth* | - | - | - | - | - | - | | |
| Basic Shares Outstanding | 2.1 | 2.5 | 2.7 | 2.8 | 2.9 | 2.6 | 2.5 | 3.0 |

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

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## HISTORICAL STOCK PRICE




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