Zacks Small-Cap Research

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Correvio Pharma Corp. (CORV - NASDAQ)

Topline Growth Accelerating

Based on our DCF model and a 15% discount rate, Correvio is valued at approximately $7.50 per share. Our model applies a 60% probability of China & US approval and commercialization of Brinavess and 70% probability of EMA approval and European commercialization for Trevyent.

Current Price (11/6/2018)	$3.60
Valuation	**$7.50**

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. Regulatory clarity in the pathway for Brinavess in the US and China provides justification for valuation in these regions.

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	**5.24**
52-Week Low	**1.31**
One-Year Return (%)	**155.3**
Beta	**-0.56**
Average Daily Volume (sh)	**177,243**
Shares Outstanding (mil)	**35.4**
Market Capitalization ($mil)	**127.4**
Short Interest Ratio (days)	**7.34**
Institutional Ownership (%)	**45.4**
Insider Ownership (%)	**3.26**
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	$6.2 A	$7.0 A	$8.1 E	$27.8 E
2019					$36.4 E
2020					$68.7 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	$0.16 A	-$0.20 A	-$0.15 E	-$0.45 E
2019					-$0.57 E
2020					-$0.26 E

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What's New

3Q:18 Operational and Financial Results

Correvio Pharma Corp. (NASDAQ: CORV) issued a press release reporting third quarter 2018 results on November 6, 2018 posting revenues of $7.0 million, a 16% increase over the prior year. Loss per share was ($0.20) as SG&A expenses grew reflecting an increase in the sales force. Newsflow during the third quarter continued to be very positive for Brinavess, and management has guided to a 2Q:19 resubmission to the FDA. The drug may also qualify for a five year patent extension until March 2031. Trevyent is now in the hands of United Therapeutics (NASDAQ: UTHR) following their acquisition of SteadyMed. United Therapeutics plans to submit an NDA for the candidate in 1H:19 after which Correvio will submit an application to the European Medicines Agency (EMA). On the financial side, the company has entered into an at the market (ATM) facility with B. Riley FBR to raise additional capital to augment cash levels for operational expenses.

Management also highlighted several other achievements in 2018 including the report of data from the SPECTRUM study, direct sales growth of 58% and the sale of the Canadian business to Cipher Pharmaceuticals (TSX: CPH).

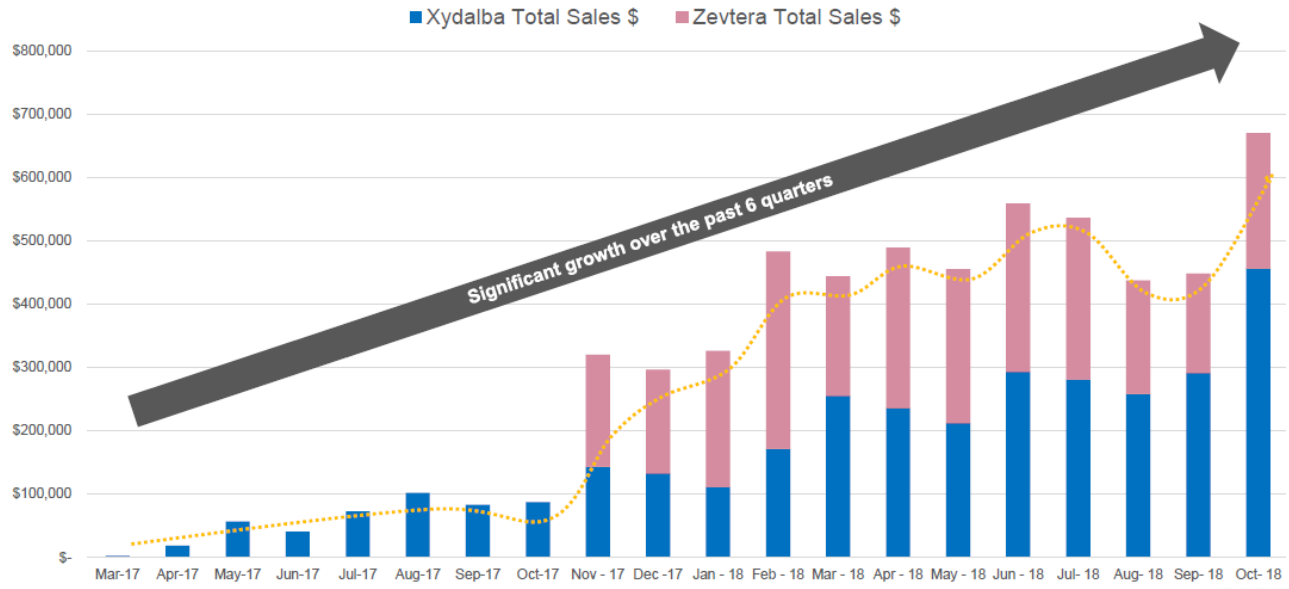
Second quarter revenues rose 16.4% on a year over year basis to $7.0 million ahead of our estimate of $6.9 million on strength in anti-infectives. Direct sales continued to comprise a larger share of revenues, increasing 58% in year to date totals compared to the same period in 2017. 3Q:18 Gross margins of 69.4% were up sequentially, but fell relative to the prior year due to product mix.

Sales, general and administrative expenses were $9.2 million, increasing 8% vs. 3Q:17 while interest expense fell 4% over the same period. Quarterly net loss of ($7.1) million was lower than the ($6.5) million in 3Q:17. Loss per share was ($0.20), flat with the prior year. Average share count for the quarter increased to 35.0 million, a 3.2% increase compared to 3Q:17. September 30 cash stands at $18.8 million compared to $22.1 million at the end of 2017 and cash burn in 3Q:18 was ($7.5) million. As mentioned above, Correvio entered into an ATM facility, and raised $2.2 million in cash from the issuance of common stock during 3Q:18. The ATM facility with B. Riley FBR provides $13 million in capacity, of which approximately $7 million remains. This relatively low cost access to capital can help advance the company as revenues grow, but will be insufficient to support the company's desired new product transaction in the anti-infective space.

Direct Sales

Direct sales growth now comprises a majority of company sales and is also growing faster than the business as a whole. Xydalba and Zevtera/Mabelio were responsible for the 58% increase year to date and have continued their trend into the fourth quarter. Seasonality of anti-infectives are strongly weighted toward the winter months, so we anticipate this trend to continue into the latter part of the fourth quarter. Below we provide the monthly sales detail for Xydalba and Zevtera which shows a strong pick up in October as we move towards year end.

Exhibit I – Monthly Sales for Xydalba & Zevtera/Mabelio



Cipher Pharmaceuticals

On March 20, 2018, Correvio (then known as Cardiome) and Cipher Pharmaceuticals announced an arrangement for Cipher to acquire Correvio's Canadian business portfolio. The portfolio included Aggrastat, Brinavess, Esmocard, Xydalba and Trevyent. The transaction was consummated on May 15th, and Cipher acquired all of the shares of Cardiome, followed by a restructuring where Cardiome shareholders received shares of the new entity in a 1:1 ratio. The deal provided cash of US$20 million to Correvio and reduced the cost structure related to Canadian sales and regulatory efforts. It also allows further focus on Cardiome/Correvio'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 Cardiome'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 company's balance sheet.

Brinavess

In October, Correvio held its pre-NDA meeting with the FDA, which provided favorable feedback and confirmed that no additional studies were needed for the agency to consider the application. Based on the correspondence and interaction with the agency, the company anticipates a 2Q:19 resubmission and potentially a response prior to year-end 2019. A substantial amount of post-approval work that has been done worldwide including the recently completed SPECTRUM study, which may be used in support of favorable action by the FDA. An estimated 40 thousand patients in 42 countries have been administered Brinavess, which provides a substantial data set for the agency's consideration.

Brinavess saw several successes in Asia as well, with partner Eddingpharm enrolling its first patient in the Phase III trial in the country and the China Food and Drug Administration identifying Brinavess as a "clinically urgently needed new drug." The clinical trial will evaluate Brinavess compared to a placebo in patients with recent onset atrial fibrillation and will enroll ~240 patients in 30 sites. The CFDA classification will allow for a 60-day priority review in China of the drug if a new drug application is accepted. The data package must include data with proof that there are no differences in Brinavess' safety or efficacy across ethnicities. It is unclear if additional data will be needed as many global trials have already been conducted including a Merck Asia Pacific study.

In the European sphere, Correvio reported preliminary data for the Phase IV SPECTRUM study, which should appear in a journal sometime in the next several months. SPECTRUM evaluated Brinavess in the EU, post-authorization, and enrolled almost 2,000 patients to evaluate normal conditions of use dosing and safety. Brinavess also appeared in a Spanish medical journal in a study entitled "Vernakalant in hospital emergency practice: safety and effectiveness" and was awarded a prize for best work. The publisher of the study, Dr. Carbajosa Dalmau, received the award in Toledo, Spain. The drug was also part of a successful survey in Belgium that generated data showing Brinavess avoided hospitalization for 85% of treated patients and reduced the need for electric cardioversion in 84% of patients. The study showed that 85% of atrial fibrillation patients had normal heart rhythm restored, allowing for earlier discharge. The survey makes an economic, efficacy and safety case for the drug.

Trevyent

In September, United Therapeutics and SteadyMed completed their announced merger agreement. SteadyMed will maintain its current supply chain partners and the arrangement between SteadyMed and Correvio regarding Trevyent will remain the same. 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. United Therapeutics plans to resubmit the Trevyent application to the FDA in 1H:19 after which Correvio will file in the European Union.

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 completing the transaction with Cipher. Below we include these significant events.

- May 2018 – Complete transaction with Cipher and Ticker Change
- May 2018 – First Patient Enrolled in Phase 3 Brinavess Trial in China
- 2Q:18 – Launch of Zevtera/Mabelio in Spain & Ireland
- 2Q:18 – Launch of Xydalba in Wales & Luxembourg
- 2Q:18 – FDA Provides Regulatory Pathway for Brinavess Approval
- 3Q:18 – Close of United Therapeutics and SteadyMed Acquisition
- 3Q:18 – MAA submission in Switzerland
- 3Q:18 – Brinavess launch in UAE
- 3Q:18 – Chinese FDA Identifies Brinavess as Urgently Needed
- 4Q:18 – ZAO Firma Euroservice to Submit MAA for Aggrastat in Russia
- 4Q:18 – Launch Xydalba in Belgium & Netherlands
- 4Q:18 – Partner Tzamal MAA filing for Xydalba in Israel
- 1H:19 – Trevyent NDA Submission by United Therapeutics
- 2Q:19 – NDA submission for Brinavess in United States
- 2H:19 – Filing for approval of Trevyent in EU by Cardiome
- 4Q:19 – FDA response to Brinavess NDA
- FY:20 – Launch of Brinavess in United States
- FY:20 – Launch of Brinavess in China
- FY:20 – Launch of Trevyent in EU and other regions

Valuation

We raise our fourth quarter revenue estimates to reflect the strong trend for Xydalba and Mabelio and maintain our target price of $7.50 per share. Material improvements in revenue above our estimates and / or achievement of continued milestones for Brinavess and Trevyent will support an increase in our valuation.

Summary

Correvio is executing on its efforts to obtain regulatory approval for its portfolio of products and is building momentum with Brinavess on a global basis. Success with the anti-infectives portfolio is also a material positive that we expect will continue into 2019. We anticipate a strong fourth quarter of 2018 and full year 2019 as the company's portfolio continues to penetrate European and global markets and maintain our target price to $7.50 per share.

PROJECTED FINANCIALS

Correvio Pharma Corp. - Income Statement

Correvio Pharma Corp (USD)	2017 A	Q1 A	Q2 A	Q3 A	Q4 E	2018 E	2019 E	2020 E
Product & royalty revenues	$23.8	$6.5	$6.2	$7.0	$8.0	$27.7	$36.2	$68.5
Licensing & other fees	$0.2	$0.0	$0.0	$0.0	$0.1	$0.1	$0.2	$0.2
Total Revenues	**$24.0**	**$6.5**	**$6.2**	**$7.0**	**$8.1**	**$27.8**	**$36.4**	**$68.7**
	-4.9%	25.9%	7.4%	16.4%	15.0%	15.7%	31.0%	88.7%
Cost of Product Sales	$6.8	$2.3	$2.0	$2.1	$2.2	$8.6	$10.9	$20.5
Gross Margin	71.5%	64.7%	68.1%	69.4%	72.0%	68.8%	70.0%	70.0%
SG&A	$36.7	$10.9	$12.6	$9.2	$9.3	$42.0	$39.0	$49.0
Amortization	$3.5	$1.0	$1.2	$1.0	$1.0	$4.1	$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)	($9.6)	($5.3)	($4.4)	($26.9)	($17.1)	($4.5)
Operating Margin	*-95.7%*	*-116.4%*	*-155.9%*	*-75.7%*	*-54.5%*	*-97.0%*	*-46.9%*	*-6.5%*
Interest Expense	$5.7	$1.1	$1.7	$1.7	$1.7	$6.1	$6.8	$6.8
Total Other Income	$0.8	($0.3)	($16.8)	$0.1	$0.0	($17.0)	$0.0	$0.0
Pre-Tax Income	($29.4)	($8.4)	$5.5	($7.1)	($6.1)	($16.1)	($23.9)	($11.3)
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%*	*-0.6%*	*0.0%*	*-0.6%*	*0.0%*	*0.0%*
Net Income	($29.8)	($8.5)	$5.5	($7.1)	($6.1)	($16.2)	($23.9)	($11.3)
Reported EPS	**($0.90)**	**($0.24)**	**$0.16**	**($0.20)**	**($0.15)**	**($0.45)**	**($0.57)**	**($0.26)**
YOY Growth	*15.8%*	*22.9%*	*-159.6%*	*4.0%*	*-37.6%*	*-49.9%*	*26.5%*	*-54.9%*
Shares Outstanding	33.2	34.7	35.0	35.0	39.5	36.0	42.0	44.0

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

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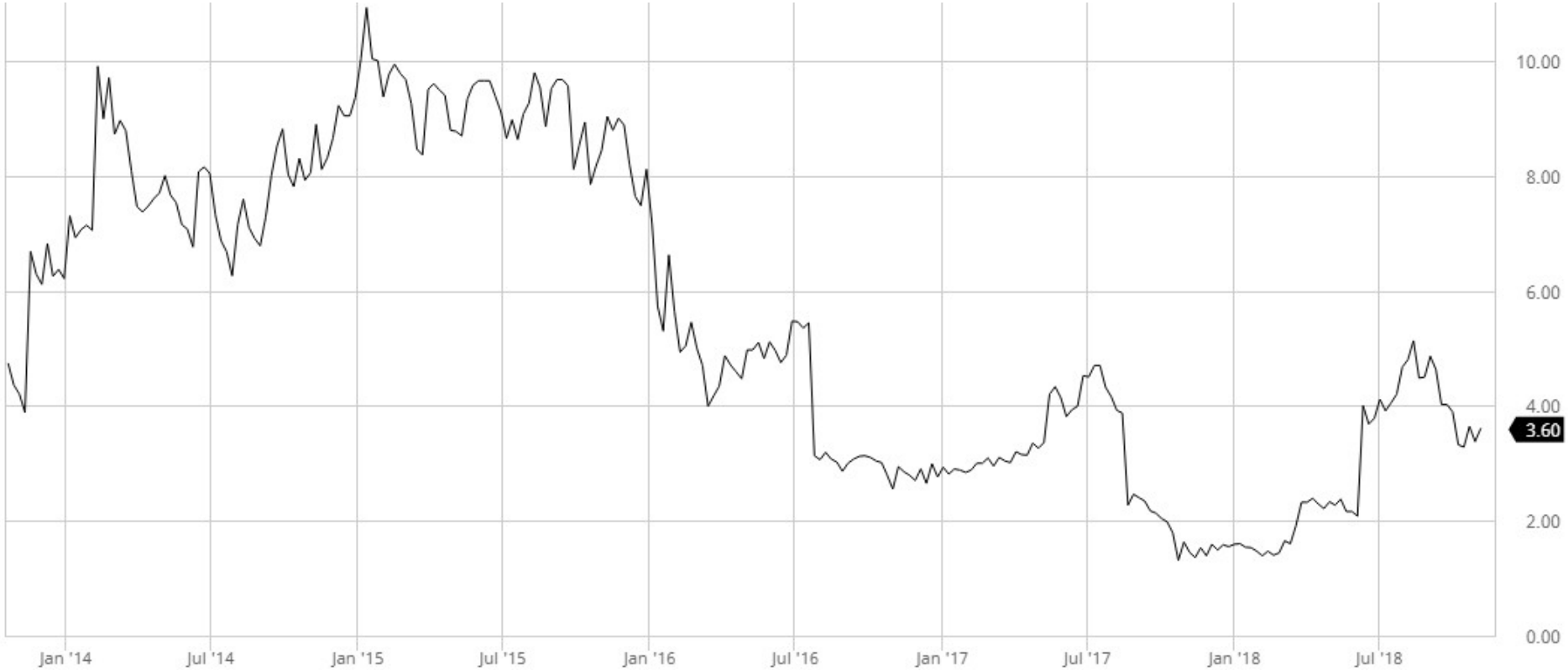
HISTORICAL STOCK PRICE

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



[1] Chart provided courtesy of barchart.com

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