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March 21, 2023
John D. Vandermosten, CFA
312-265-9588 / jvandermosten@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Suite 1600, Chicago, IL 60606

RVL Pharmaceuticals plc (RVLP: NASDAQ)

Telemedicine & E-commerce to Drive 2H:23 Growth

We apply an 18.0x multiple to 2027 earnings and a 15.0x multiple to 2027 EBITDA, then discount the blended result to present using a 20% factor to generate our target price.

Current Price (3/20/2023)	$1.07
Valuation	**$3.00**

OUTLOOK

RVL Pharmaceuticals commercializes Upneeq for the treatment of acquired blepharoptosis, or low-lying eyelids. While its primary use is for a medical condition that limits vision, the benefits extend to the aesthetics market where it improves appearance, avoiding a sleepy look.

Following successful pivotal trials measuring superior visual field deficits and upper eyelid elevation, RVL launched Upneeq in late 2020 to eye care professionals. Commercialization efforts later expanded to ophthalmology, optometry and oculoplastic specialties. RVL began pursuing the aesthetics market in early 2022 driving rapid growth off of a small base.

RVL controls its own pharmacy which can either distribute directly or maintain virtual inventory allowing providers to buy product and dispense directly to patients. Future efforts may pursue digital marketing and online pharmacy to improve relationships with customers.

Further growth may come from the Santen agreement for ex-US development of Upneeq, especially in Asia. Several milestones have been paid and upon approval in designated territories royalties will be owed to RVL. Pivotal trials are underway and first sales may take place in 2025.

SUMMARY DATA

52-Week High	**$2.99**
52-Week Low	**$0.99**
One-Year Return (%)	**-42.5**
Beta	**1.1**
Average Daily Volume (sh)	**55,859**
Shares Outstanding (mil)	**99.3**
Market Capitalization ($mil)	**106.2**
Short Interest Ratio (days)	**3.3**
Institutional Ownership (%)	**49.7**
Insider Ownership (%)	**26.2**
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 2022 Estimate	**N/A**
P/E using 2023 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 USD)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021	$0.9 A	$11.5 A	$2.2 A	$2.9 A	$17.5 A
2022	$21.4 A	$8.4 A	$10.0 A	$9.8 A	$34.2 A
2023					$59.0 E
2024					$85.6 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2021	-$0.22 A	-$0.35 A	-$0.42 A	-$0.24 A	-$1.23 A
2022	-$0.08 A	-$0.14 A	-$0.16 A	-$0.18 A	-$0.58 A
2023					-$0.38 E
2024					-$0.21 E

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WHAT'S NEW

2022 Financial and Operational Results

RVL Pharmaceuticals, plc (NASDAQ: RVLP) reported 2022 results in a press release augmented by a conference call before market open on March 20, 2023. The company subsequently filed its Form 10-K with the SEC. RVL reported revenues of $49.7 million, a 184% increase over prior year amounts. Revenues from product sales were $34.2 million, a 356% increase over 2021 levels. Highlights include the addition of 4,300 new customer practices in 2022 ordering Upneeq. The company also exceeded 20,000 pharmacy-paid prescribers and opened its telemedicine channel in 3Q:22. In January 2023, RVL updated 2022 guidance and estimated 4Q:22 revenues of $12.1 million. However, due to a subsequent accounting change that recognizes Direct Dispense revenues upon delivery to the customer, the audited number was $9.8 million. The $2.3 million difference in revenues has since been recognized and future periods will continue to use this convention.

2022 Achievements:

- Corporate name change to RVL Pharmaceuticals from Osmotica – January 2022
- Receipt of multiple milestone payments – 1Q:22
- Expansion of commercialization activities into medical aesthetics market – February 2022
- Amendment to Santen agreement expanding into additional territories – March 2022
- Financing agreement executed with Athyrium/Avista - August 2022
- Telemedicine channel opened – 3Q:22
- Launch of e-commerce platform – 1Q:23

Revenues of $49.7 million were reported for 2022. Gross margins improved to 72% and operating expense was $85.9 million yielding a net loss of ($51.7) million or ($0.58) per share.

For the year ending December 31, 2022 and versus the same 12-month period ending December 31, 2021:

- Revenues of $49.7 million were up 184% and include $34.2 million of Upneeq product revenues (a 356% increase) and $15.5 million of licensing revenues which compare to $7.5 million of product revenues and about $10 million of licensing and royalty revenues;
- Gross margin was 72% (the calculation of which ignores licensing revenues) compared to a 52% rate in 2021. Gross margin generally improved as the year progressed reflecting improved overhead absorption driven by higher volumes and more favorable average selling prices;
- General & administrative expense was $82.0 million, down 6.3% from $87.5 million influenced by $8.4 million in lower legal and other professional fees, $2.4 million in lower share-based compensation expense, $1.1 million in lower debt and equity issuance and transactional fees and $0.7 million in lower restructuring related expenditures, partially offset by $6.9 million in higher net compensation costs primarily for an expanded salesforce and $0.8 million of higher credit card fees;
- Research & development expense totaled $4.0 million, falling 43% from $6.9 million, reduced as a result of $1.2 million in lower project spending, $0.3 million in lower share-based compensation expense and $1.2 million in restructuring expenses particular to the 2021 period;
- Impairment of intangible assets totaled $13.3 million representing an adjustment related to arbaclofen tied to an anticipated delay in commercialization vs. $7.9 million;
- Other non-operating income was $7.3 million vs. $0.2 million driven by gains from the sale of legacy businesses to Alora and gains from the change in fair value from the company's debt and warrants. Interest expense and amortization of debt discount was $3.0 million;
- Net loss was ($51.7) million vs. ($82.8) million or ($0.58) and ($1.23) per share, respectively.

As of December 31, 2022, cash and equivalents stood at $44.5 million. This amount compares to a $40.4 million balance in cash and equivalents held at the end of 2021. Cash burn for the year was ($37.7) million offset by a $41.8 million contribution from financing cash flows derived largely from debt and share issuances. During the first quarter, RVL received cash of $5.0 million from Alora related to a contingent milestone payment. The proceeds were used to repay part of outstanding debt. $4.1 million in federal tax refunds were also received in 1Q:23 helping

offset cash burn. There are an additional $1.8 million in additional federal refund claims outstanding that may be collected later this year. A second amendment to the company's debt covenant reduced the minimum liquidity requirement from $15.0 million to $12.5 million.

Arbaclofen ER

RVL has been developing arbaclofen ER tablets for the alleviation of signs and symptoms of spasticity resulting from multiple sclerosis (MS). The drug was retained after the sale of legacy businesses to Alora in August 2021. It had completed a Phase III trial and been submitted in a new drug application to the FDA. Following a complete response letter (CRL) and several additional interactions with the FDA, the path forward for arbaclofen is to be determined by the agency's response to a special protocol assessment (SPA). Multiple SPAs have been submitted to the FDA on behalf of arbaclofen; however, an agreement has not been reached. RVL made another set of modifications to its SPA and resubmitted it to the FDA on February 8, 2023. The anticipated delay related to the revisions to the SPA and other changes in the assumptions regarding the arbaclofen program have led to a write down of the in-process research and development of $13.3 million.

RVL's intent is to partner the arbaclofen program after the path forward is settled. We do not attach any value to the asset and will reassess when there is a high likelihood of a program moving forward.

Valuation

In early January, RVL guided towards revenues of $12.1 million in the fourth quarter. However, due to an accounting change related to the Direct Dispense program, revenues were officially reported as $9.8 million with the difference to be recognized in 1Q:23. As 2023 begins, it appears that sequential growth has slowed and RVL has oriented its commercialization efforts towards reorders, which require fewer resources to grow. Based on extensive conversations with management and our own analysis of the impact of lower sales and marketing expenditures, we update our model to reflect slower revenue growth and a decline in anticipated expenses in coming quarters. Two upcoming growth drivers include telehealth and Elevate which are expected to ramp up in coming months and contribute to revenues in the second half of 2022. We reduce our 2023 revenue estimate to $59.0 million, which represents product revenue growth of 72%. Operating expenditures, which includes SG&A and R&D are forecast to fall by 16% to $72.2 million. Interest expense will also fall in 2023 due to the partial paydown of debt from the Alora proceeds.

Our valuation methodology uses a blend of multiple of earnings and of earnings before interest, taxes and depreciation (EBITDA) to generate our target price based on 2027 forecasts. The results from the multiple of earnings and EBITDA is discounted to present at a 20% rate. 2027 revenues are now forecast at $180.2 million producing earnings of $0.35 per share and EBITDA of $47.9 million. We provide a sensitivity table to show the impact of a range of multiples and discount rates. The product of our methodology produces a valuation of approximately $3.00 per share.

Exhibit I – Multiple of Earnings Valuation[1]

2027 Price/Earnings	2023 PV	Discount Rate				
		15.0%	17.5%	20.0%	22.5%	25.0%
	14.0	$2.82	$2.59	$2.38	$2.19	$2.02
	16.0	$3.22	$2.96	$2.72	$2.50	$2.31
	18.0	$3.63	$3.33	$3.06	$2.82	$2.60
	20.0	$4.03	$3.70	$3.40	$3.13	$2.89
	22.0	$4.43	$4.07	$3.74	$3.44	$3.18

[1] Generated by Zacks' Research Analysts

Exhibit II – Multiple of EBITDA Valuation[2]

2027 EV/EBITDA	2023 PV	Discount Rate				
		15.0%	17.5%	20.0%	22.5%	25.0%
	13.0	$2.94	$2.70	$2.48	$2.29	$2.11
	14.0	$3.19	$2.93	$2.69	$2.48	$2.29
	15.0	$3.44	$3.16	$2.90	$2.67	$2.47
	16.0	$3.69	$3.39	$3.11	$2.87	$2.64
	17.0	$3.94	$3.61	$3.32	$3.06	$2.82

Summary

The trend in revenues has slowed from our previous expectations and we adjust accordingly. Despite the slowing, we still expect strong year over year growth in 2023 as sales efforts continue to penetrate new medical aesthetics locations and new pharmacy prescribers are added. Reorders are expected to play a dominant role in coming quarters, demonstrating the favorable user experience with Upneeq. Elevate, the company's e-commerce portal, expects will help facilitate reorders through a subscription model. We expect this initiative to contribute to revenue growth in the second half of 2023. Telemedicine is another program that leverages the reach of established partners to expand into new markets and for customers who may not otherwise interact with an aesthetic practice.

Following the report of full year 2022 results we update our model to reflect new company priorities, spending plans and revenue expectations and generate an updated target price. Our approach blends a multiple of 2027 earnings and EBITDA to produce a valuation which is discounted to present. The results of our methodology generate a target price of $3.00 per share.

[2] Generated by Zacks' Research Analysts

PROJECTED FINANCIALS

RVL Pharmaceuticals plc. - Income Statement

RVL Pharmaceuticals plc	2021 A	Q1 A	Q2 A	Q3 A	Q4 A	2022 A	2023 E	2024 E
Total Revenues ($US)	**$17,501**	**$21,444**	**$8,448**	**$10,022**	**$9,807**	**$49,721**	**$59,024**	**$85,585**
YOY Growth	*-37%*	*2193%*	*-27%*	*356%*	*243%*	*184%*	*19%*	*45%*
Cost of Goods Sold	$3,618	$2,144	$2,227	$2,525	$2,560	$9,456	$16,527	$24,392
Gross Margin-Product Sales Only	52%	64%	74%	75%	74%	72%	72%	72%
Gross Profit	$13,883	$19,300	$6,221	$7,497	$7,247	$40,265	$42,497	$61,193
Selling, General & Administrative	$87,463	$23,834	$20,169	$20,375	$17,601	$81,979	$69,656	$71,746
Research and Development	$6,930	$862	$1,176	$1,044	$884	$3,966	$2,500	$2,000
Other Expenses	$2,244	$0	$0	$0	$13,310	$13,310	$0	$0
Income from operations	($82,754)	($5,396)	($15,124)	($13,922)	($24,548)	($58,990)	($29,659)	($12,553)
Net Interest Expense	$3,036	$985	$978	$1,132	$15	$3,110	$8,850	$8,800
Other Income	($3,256)	$515	($4,273)	($671)	($5,959)	($10,388)	$0	$0
Pre-Tax Income	($82,534)	($6,896)	($11,829)	($14,383)	($18,604)	($51,712)	($38,509)	($21,353)
Provision for Income Tax	$315	($75)	$277	$63	($285)	($20)	$0	$0
Tax Rate	*-0.4%*	*1.1%*	*-2.3%*	*-0.4%*	*1.5%*	*0.0%*	*0.0%*	*0.0%*
Net Income	**($82,849)**	**($6,821)**	**($12,106)**	**($14,446)**	**($18,319)**	**($51,692)**	**($38,509)**	**($21,353)**
Reported EPS	**($1.23)**	**($0.08)**	**($0.14)**	**($0.16)**	**($0.18)**	**($0.58)**	**($0.38)**	**($0.21)**
Basic Shares Outstanding	67,354	83,490	83,581	92,756	99,157	89,797	101,000	102,000

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

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HISTORICAL STOCK PRICE

RVL Pharmaceuticals plc. – Share Price Chart[3]



[3] Source: Zacks Research System

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