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Zacks Small-Cap Research (NOTE)

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RVL Pharmaceuticals plc (RVLP: NASDAQ)

RVLP: Revenue Dip Prompts Spending Reversal

Research Note

RVL Pharmaceuticals plc (NASDAQ: RVLP) reported second quarter results this morning, surprising with a sequential and year over year decline in revenues. 2Q:23 sales were $8.26 million, compared to $8.45 million in 2Q:22. A recent turn towards cost cutting has helped stem losses, and ignoring the arbaclofen write down, loss from operations was ($8.1) million, the best result in over a year. However, RVL is in a growth mode and losses should be expected as efforts are strongly allocated towards driving the topline.

Strategic Alternatives
In a July 5th business update, RVL announced that it will consider strategic alternatives, including the pursuit of complementary aesthetics products with revenue and synergies with Upneeq. In the second quarter press release, the company noted that it is in discussions with strategic targets that may accelerate Upneeq sales, broaden the company's portfolio and drive growth. Further details were not available to evaluate the strategic opportunity; however, we are strong believers in leveraging an in-place sales structure that can layer on additional products at minimal additional cost. RVL offers a telemedicine channel, its Elevate e-commerce platform and a sales force in place that is making daily calls on practices. A new, related product could easily be added to the portfolio of products and generate strong incremental margins. While we do not know the identity of the products being considered or the extent of their complementarity with Upneeq, it appears that RVL is in the later stages of its negotiations and we may hear additional details soon.

Board Changes and Strategy
In a recent Form 8-K filing, RVL announced that two directors had resigned from the board. As we understand it, some members of the board recognized the difficult fundraising environment that small capitalization life sciences companies are facing and favored minimizing cash burn. However, this had the unintended effect of negatively impacting sales and led to changes in the board composition and its strategy to get the topline back on track. It appears that the remaining board members are now aligned in their desire to invest in topline growth despite the hazards of difficult capital markets. In the 2Q:23 press release, management notes that it is now seeking to drive consumer awareness in order to unlock growth for Upneeq. Incremental sales will be heavily oriented towards the consumer and encourage the use of the subscription model.

Athyrium Amendment
RVL has been able to renegotiate its financing agreement with Athyrium, which management believes provides additional flexibility. Athyrium's support may allow the company to sidestep many of the risks of increasing cash burn and take the long view as the company pivots toward increasing investment in product awareness and new sales growth.

Contributors to Revenue Decline
Over the prior year, as part of the effort to reduce costs, the sales team was reduced from 75 to 45 today. While reorders have been strong, with 2,100 locations going a second round, new sales have not been keeping up due to the reduction in sales force. Based on company commentary, we anticipate that marketing spend will accelerate in the second half and sales will resume their upward trajectory with a lag.

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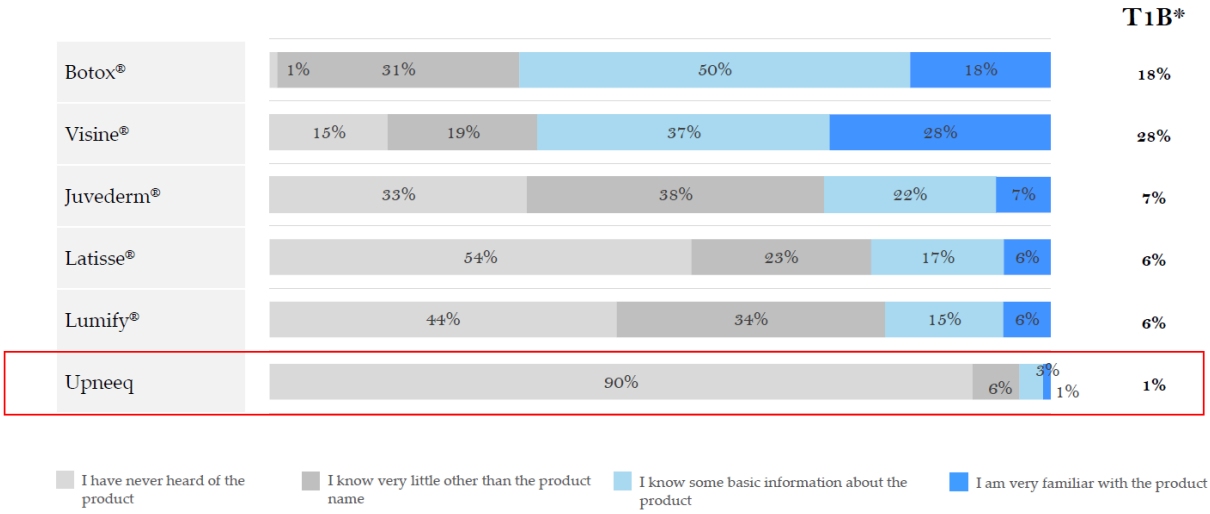
Moving Down the Income Statement
As we look at the income statement, we observe the year over year decline in sales but also the increase in gross profit to $6.3 million from $6.2 million in the prior year. Better gross margin of 76% (compared to 74% in 2Q:22) was achieved on account of stronger Upneeq pricing and lower royalty expense. Selling, general and administrative expenses were down 31% to $13.9 million and research and development fell 53% to $547,000. This produced an operating loss of ($8.1) million compared to ($15.1) million in the prior year. Second quarter 2023 results show that RVL was able to dramatically improve the efficiency of its operations with cost cutting; however, it was at the expense of growth.

We believe that investment needs to be made to penetrate the market and drive brand awareness. Close attention should be paid to the efficiency of sales dollars to ensure that a dollar spent on sales is generating more than it costs.

Turnaround Strategy
RVL has outlined its strategy to inflect growth in the second half of 2023 with efforts to improve consumer awareness, develop the provider base and grow the field force to support conversion at the practices. Below we show a graphic from RVL's latest presentation that illustrates the awareness of many of the leading products in the aesthetics market. Note that the T1B refers to the proportion of those surveyed who are very familiar with the product.

Exhibit I – Relative Consumer Awareness of Aesthetics Products[1]



Arbaclofen Write-Down
RVL recognized a $13.9 million writedown of arbaclofen in the quarter. While it distracts from the improvement in net income achieved, it was a required write-down as RVL will not pursue the commercialization of the asset and no buyer has been identified.

Net Loss
Net loss was ($23.9) million which included $13.9 million of writedowns and a net $2.0 million of expense related to change in fair value and other non-operating items. Cash burn in the quarter was ($13.0) million and cash balance stands at $19.1 million as of June 30, 2023.

Summary

RVL Pharmaceuticals reported a difficult quarter with revenues down both sequentially and year over year. We did not expect such a turn in our estimates; however, we recognize that the reduction in spending on commercialization and a material reduction in the sales force had a dramatic effect on topline with a lag. RVL has recognized that it must make further investments in sales and now has a board of directors that appears to be aligned on the strategy to increase awareness of the product and leverage its telemedicine, e-commerce and salesforce platforms to reinvigorate revenues. Indications that a complementary product is near at hand signal a new product that may provide leverage to reduce cash burn and allow the investments required for the aggressive double-digit growth to return.

[1] RVL Pharma corporate Presentation, August 2023.

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