

pSivida Corp. (PSDV - \$1.13)

All Eyes on Key Catalysts in 2018

PSDV recently announced that the FDA granted its small business waiver request of the PDUFA fee of ~\$2.4M for its NDA (filing expected imminently) for Durasert three-year microinsert for posterior segment uveitis. This comes off the heels of PSDV's positive Phase 1 safety and exploratory efficacy pilot study in knee osteoarthritis (OA) pain study, which was able to demonstrate impressive average weekly pain score reduction of 3.8 points. We were especially encouraged by the lasting effect of the treatment (4.7 point reduction at 12 weeks and 5.0 point reduction at 24 weeks). OMERACT-OARSI showed that 4 patients were considered strict responders by week 4 and all 6 patients were strict responders on weeks 12 and 24. Additionally, the plasma dexamethasone concentrations were lower than in standard of care treatments and no adverse events were reported. Although this was an open-label small study (n=6), we view these results as a real positive as it attests to the additional markets pursued by PSDV through their Durasert technology. With the NDA filing for Durasert three-year expected any day now (full launch expected 1Q19) as well as Durasert short-acting's potential sNDA filing by YE18, we believe 2018 could be a transformational year at PSDV. We reiterate our Buy rating and \$5 price target.

- **NDA filing fee waived and impressive OA data, momentum into 2018.** With NDA filing fee waived as anticipated and positive Phase 1 data in their HSS-designed implantable design knee OA pain trial, we continue to believe PSDV and its strong relatively new management team is well-positioned to take on 2018.
- **Hard to overstate the importance of 2018 at PSDV.** With Durasert three-year NDA filing imminent (company guides early January) followed by potential full launch for posterior segment uveitis in 1Q19, we view 2018 as a crucial year for PSDV. Additionally, PSDV intends to file an sNDA for their short-acting program (we believe could be the largest long-term value driver) right after Durasert three-year's potential approval. As PSDV continues its transformation from an R&D focus to a fully integrated company, we believe new management's strong commercial background could soon start paying off.
- **Reiterating our Buy rating, \$5 PT.** Our price target is based on Durasert three-year US and royalties at \$4.25/share and \$0.75/share for cash and tech.

Earnings Estimates: (per share)

(Jun)	1Q	2Q	3Q	4Q	FY	P/E
FY19E	(0.13)	(0.13)	(0.09)	(0.07)	(0.43)	NA
FY18E	(0.15)A	(0.15)	(0.13)	(0.13)	(0.55)	NA
FY17A	(0.21)	(0.00)	(0.15)	(0.16)	(0.52)	NA
FY16A	NA	NA	NA	NA	(0.68)	NA

Source: Laidlaw & Company estimates

Healthcare / Biotechnology

Ticker: **PSDV**
Rating: **Buy**
Price Target: **\$5.00**

Trading Data:

Last Price (01/04/2018)	\$1.13
52-Week High (05/30/2017)	\$2.45
52-Week Low (12/14/2017)	\$1.02
Market Cap. (MM)	\$51.1
Shares Out. (MM)	45.3

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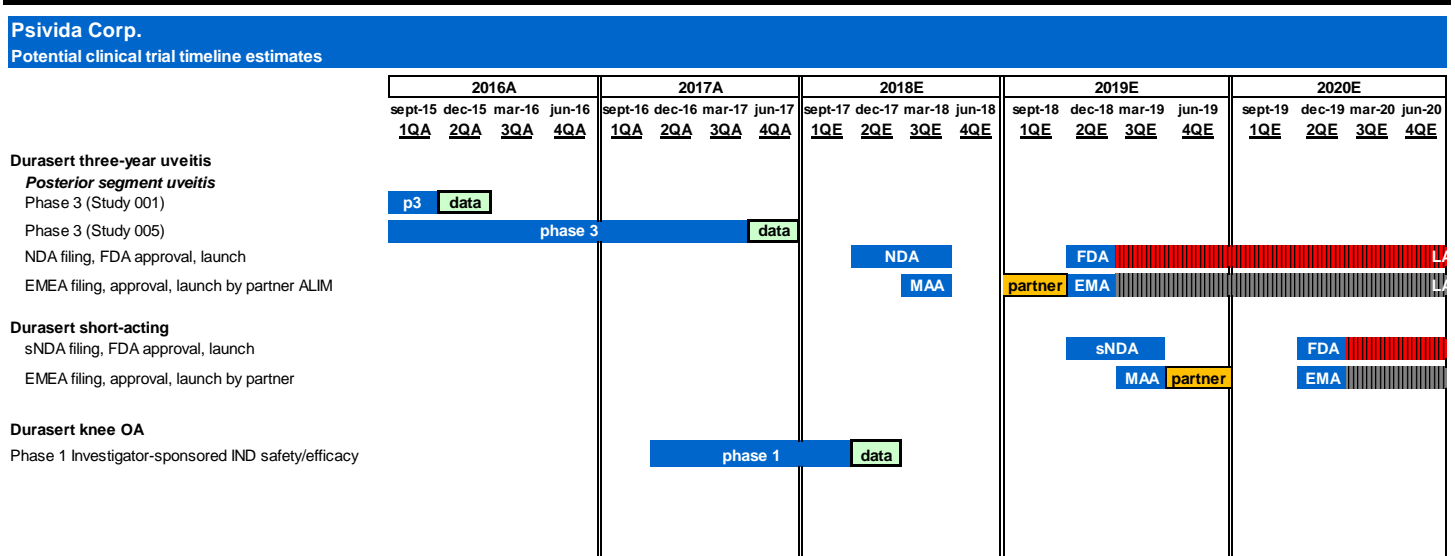
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Figure 1: Sum-of-the-Parts Analysis

Sum-of-the-parts valuation		
Segment	Valuation (000's)	Per share value
Durasert tree-year US	\$164,277	\$3.00
Durasert three-year royalties	\$70,627	\$1.25
Cash (end '18) & tech value	\$35,075	\$0.75
	\$269,980	\$5.00
2018 fully diluted shares out (000)		53,680

Source: Company Reports; Laidlaw and Company estimates

Figure 2: Potential Clinical Trial Timeline



Source: Company Reports; Laidlaw & Company estimates

Figure 3: Quarterly Income Statement

Psivida Corp.											
Quarterly income statement											
	2016A	2017E				2017E	2018E				2018E
	jun-16	sept-16	dec-16	mar-17	jun-17	jun-17	sept-17	dec-17	mar-18	jun-18	jun-18
(\$000 except per share)	Year	1QA	2QA	3QA	4QA	Year	1QA	2QE	3QE	4QE	Year
Revenues											
Collaborative R&D	398	34	5,702	372	461	6,569	140	200	200	200	740
Royalty income	1,222	243	269	218	240	970	245	405	399	444	1,493
Durasert 3 year US											
Durasert 3 year royalty uveitis EMEA											
Total Revenues	\$1,620	\$277	\$5,971	\$590	\$701	\$7,539	\$385	\$605	\$599	\$644	\$2,233
Expenses:											
COGS (% of US Revenue)			-	-	-	-					
Gross Margin	1,620	277	5,971	590	701	7,539	385	605	599	644	2,233
Research and development	14,381	4,178	3,165	3,324	4,213	14,880	3,819	4,250	4,500	4,500	17,069
General and administrative	9,013	3,285	2,900	2,426	2,624	11,235	2,572	2,500	2,500	2,500	10,000
Total operating expenses	23,394	7,463	6,065	5,750	6,837	26,115	6,391	6,750	7,000	7,000	27,069
Adj. Net Income/ (loss)	(21,774)	(7,186)	(94)	(5,160)	(6,136)	(18,576)	(6,006)	(6,145)	(6,401)	(6,356)	(24,836)
Interest and other income	72	24	27	20	20	91	23	25	25	25	98
(Loss) income before inc.taxes	(21,702)	(7,162)	(67)	(5,140)	(6,116)	(18,485)	(5,983)	(6,120)	(6,376)	(6,331)	(24,738)
income tax benefit (exp)	155	-									
NI/(loss) as reported	(21,547)	(7,162)	(67)	(5,140)	(6,116)	(18,485)	(5,983)	(6,120)	(6,376)	(6,331)	(24,738)
						-					
NI/(loss) as reported	(21,547)	(7,162)	(67)	(5,140)	(6,116)	(18,485)	(5,983)	(6,120)	(6,376)	(6,331)	(24,738)
Earning per Share (EPS)	(\$0.68)	(\$0.21)	(\$0.00)	(\$0.15)	(\$0.16)	(\$0.52)	(\$0.15)	(\$0.15)	(\$0.13)	(\$0.13)	(\$0.55)
Adj EPS ex-1x & non-cash											
Weighted avg. shares (000)	31,623	34,175	34,177	34,366	38,673	35,344	39,430	39,680	49,680	49,930	44,680
Fully diluted shares (000)	37,228	40,579	42,408	42,487	50,627	44,022	48,430	48,680	58,680	58,930	53,680

Source: Company Reports; Laidlaw & Company estimates

Figure 4: Annual Income Statement

Psivida Corp.						
Annual income statement						
(\$000's except per share)	2016A	2017A	2018E	2019E	2020E	Comments
Revenues						Durasert 3-year launch 3Q19
Collaborative R&D	\$398	\$6,569	\$740	\$800	\$800	
Royalty income	\$1,222	\$970	\$1,493	\$3,619	\$9,680	
Durasert 3 year US				\$5,100	\$19,664	
Durasert 3 year OUS royalty				\$69	\$874	
Total Revenues	\$1,620	\$7,539	\$2,233	\$9,588	\$31,017	
COGS				956	2,360	
Gross margin	1,620	7,539	2,233	8,632	28,658	
R&D	14,381	14,880	17,069	19,500	21,500	
SG&A	9,013	11,235	10,000	11,800	14,500	Sales reps start 4Q19, n=8 to n=15mby 3Q20
Operating income/(loss)	(21,774)	(18,576)	(24,836)	(22,668)	(7,342)	
Interest expense	72	91	98	100	100	
Total other loss						
Adj-Net income/(loss)	(21,547)	(18,485)	(24,738)	(22,568)	(7,242)	
Series A convert premium						
NI/(loss) as reported	(21,547)	(18,485)	(24,738)	(22,568)	(7,242)	
Adj-EPS ex-non-cash	(\$0.68)	(\$0.52)	(\$0.55)	(\$0.43)	(\$0.13)	
EPS as reported						
Shares out (000)	31,623	35,344	44,680	52,530	55,705	
Fully diluted shares (000)	37,228	44,022	53,680	62,530	66,705	

Source: Company Reports; Laidlaw & Company estimates

Major Risks

Exogenous events could impact our outlook. We believe pharmaceutical companies have the least control over competitive, political, and regulatory risks. Although we have incorporated competitive assumptions into our forecasts, there may be other risks beyond the scope of our analysis. Changes in the drug reimbursement system, as well as any political or regulatory amendments, may significantly influence the earnings power of these companies.

Actual clinical results and the FDA's conclusions may deviate from expectations. Many of our assumptions are based on a review of incomplete clinical trial data available in the public domain. Often, our conclusions are drawn from early stage data, which may not be reflected by pivotal studies. Furthermore, the FDA's conclusions may not coincide with our own, materially changing our revenue and earnings assumptions.

Compliance issues, product recalls, and other mandates by regulatory authorities could materially change our expectations. Regulatory compliance issues, ranging from accounting irregularities to defective manufacturing practices, could materially change our assumptions and earnings outlook. Unanticipated product recalls and labeling changes could also have adverse consequences on our earnings assumptions.

Legal risks could lead to additional liabilities and revenue loss. In addition to the expenses incurred by patent challenges, product liability and other legal suits could occur and lead to additional liabilities and revenue loss, which could substantially change our financial assumptions.

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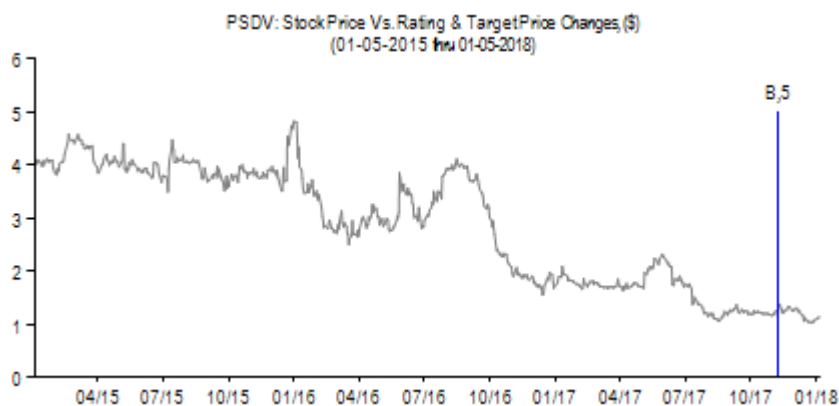
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Rating and Price Target Change History



Source: Laidlaw & Company

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3 Year Rating Change History

Date	Rating	Closing Price (\$)
11/08/2017	Buy (B)	1.23

3 Year Price Change History

Date	Target Price (\$)	Closing Price, (\$)
11/08/2017	5.00	1.23

Laidlaw & Company Rating System*		% of Companies Under Coverage With This Rating	% of Companies for which Laidlaw & Company has performed services for in the last 12 months	
			Investment Banking	Brokerage
Strong Buy (SB)	Expected to significantly outperform the sector over 12 months.	0.00%	0.00%	0.00%
Buy (B)	Expected to outperform the sector average over 12 months.	66.67%	29.41%	1.96%
Hold (H)	Expected returns to be in line with the sector average over 12 months.	1.96%	0.00%	0.00%
Sell (S)	Returns expected to significantly underperform the sector average over 12 months.	0.00%	0.00%	0.00%

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