

pSivida Corp. (PSDV - \$1.06)

Healthcare / Biotechnology

Quarter In-Line and Second Phase 3 Continues to Impress, 2018 Off to a Good Start

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

PSDV reported their FY2Q18 last night mostly in line with expectations with EPS (\$0.13) vs. our anticipated (\$0.15). While PSDV could become an earnings story as early as next calendar year, we consider it a development story at this time. We were particularly encouraged by its newly released second Phase 3 trial for Durasert Three-year for the treatment of Posterior Segment Uveitis as it demonstrated highly statistically significant difference in prevention of uveitis recurrence vs. sham through 12 months. In fact, 36.6% of Durasert patients dealt with recurrence vs. 71.2% in the sham group (p<0.001). As uveitis recurrence at 6 months consisted of 21.8% for Durasert and 53.8% in sham, we view the 12 months results as a real positive since the variation between Durasert and sham patients reflects impressive consistency. We were also encouraged by the safety profile of the 12 months data as only one patient on Durasert required IOP surgery. Additionally, there was a mean increase of IOP of only 2mm Hg and 0mm Hg over baseline IOP of 13.3mm Hg and 13.1mm Hg for Durasert and sham, respectively. As PSDV awaits an FDA decision to accept their NDA submitted in early January, we look forward to one or more collaboration agreements and the completion of the GLP safety and PK study for their shorter duration product, which we continue to view as their potentially largest long-term value driver. As PSDV continues hitting milestones on their journey from an R&D focused to a fully integrated company, we reiterate our Buy rating and \$5 price target.

Trading Data:

Last Price (02/07/2018)	\$1.06
52-Week High (05/30/2017)	\$2.45
52-Week Low (02/06/2018)	\$1.00
Market Cap. (MM)	\$48.0
Shares Out. (MM)	45.3

- **Still a development story, 2nd Phase 3 safety and efficacy maintained through 12 months.** While still not an earnings story, we see as a real positive Durasert Three-year's lasting efficacy and safety profile as highly statistical significance has now been demonstrated to be maintained through 12 months. We were especially encouraged that the difference between Durasert and sham arms has been consistent between the 6 and now 12 month time points.
- **2018 could prove transformational at PSDV.** With the NDA filed since early January, PSDV continues to project their full US launch for posterior segment uveitis to begin in 1Q19. Additionally, PSDV continues to expect to file their sNDA for their short-acting program following Durasert Three-year's potential approval. We expect additional collaborations in the near term and continue to be encouraged by management's extensive commercial experience.
- **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	(0.12)	(0.12)	(0.08)	(0.06)	(0.39)	NA
FY18E	(0.15)A	(0.13)A	(0.12)	(0.11)	(0.50)	NA
FY17A	(0.21)	(0.00)	(0.15)	(0.16)	(0.52)	NA
FY16A	NA	NA	NA	NA	(0.68)	NA

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Source: Laidlaw & Company estimates

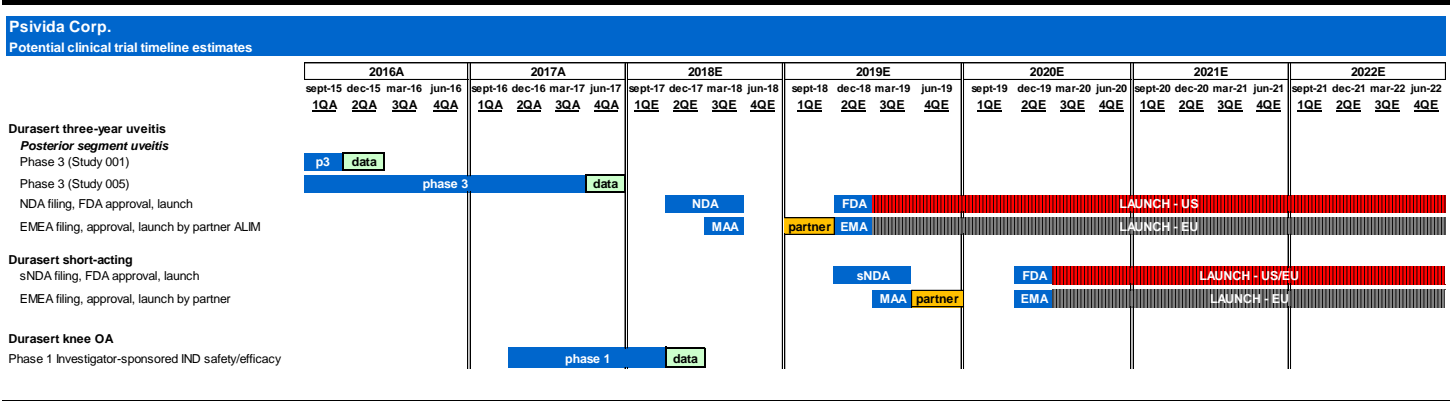
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Figure 1: Sum-of-the-Parts Analysis

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	\$35,585	\$0.75
	\$270,490	\$5.00
2018 fully diluted shares out (000)		57,318

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 Year	sept-16 1QA	dec-16 2QA	mar-17 3QA	jun-17 4QA	jun-17 Year	sept-17 1QA	dec-17 2QA	mar-18 3QE	jun-18 4QE	jun-18 Year
(\$000 except per share)											
Revenues											
Collaborative R&D	398	34	5,702	372	461	6,569	140	461	300	300	1,201
Royalty income	1,222	243	269	218	240	970	245	472	399	444	1,560
Durasert 3 year US											
Durasert 3 year royalty uveitis EMEA											
Total Revenues	\$1,620	\$277	\$5,971	\$590	\$701	\$7,539	\$385	\$933	\$699	\$744	\$2,761
Expenses:											
COGS (% of US Revenue)			-	-	-	-					
Gross Margin	1,620	277	5,971	590	701	7,539	385	933	699	744	2,761
Research and development	14,381	4,178	3,165	3,324	4,213	14,880	3,819	4,269	4,500	4,500	17,088
General and administrative	9,013	3,285	2,900	2,426	2,624	11,235	2,572	2,472	2,500	2,500	10,000
Total operating expenses	23,394	7,463	6,065	5,750	6,837	26,115	6,391	6,741	7,000	7,000	27,088
Adj. Net Income/ (loss)	(21,774)	(7,186)	(94)	(5,160)	(6,136)	(18,576)	(6,006)	(5,808)	(6,301)	(6,256)	(24,327)
Interest and other income	72	24	27	20	20	91	23	26	25	25	99
(Loss) income before inc.taxes	(21,702)	(7,162)	(67)	(5,140)	(6,116)	(18,485)	(5,983)	(5,782)	(6,276)	(6,231)	(24,228)
income tax benefit (exp)	155	-									
NI/(loss) as reported	(21,547)	(7,162)	(67)	(5,140)	(6,116)	(18,485)	(5,983)	(5,782)	(6,276)	(6,231)	(24,228)
						-					
NI/(loss) as reported	(21,547)	(7,162)	(67)	(5,140)	(6,116)	(18,485)	(5,983)	(5,782)	(6,276)	(6,231)	(24,228)
Earning per Share (EPS)	(\$0.68)	(\$0.21)	(\$0.00)	(\$0.15)	(\$0.16)	(\$0.52)	(\$0.15)	(\$0.13)	(\$0.12)	(\$0.11)	(\$0.50)
Adj EPS ex-1x & non-cash											
Weighted avg. shares (000)	31,623	34,175	34,177	34,366	38,673	35,344	39,430	44,530	54,530	54,780	48,318
Fully diluted shares (000)	37,228	40,579	42,408	42,487	50,627	44,022	48,430	53,530	63,530	63,780	57,318

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	\$1,201	\$1,200	\$1,200	
Royalty income	\$1,222	\$970	\$1,560	\$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	\$2,761	\$9,988	\$31,417	
COGS				956	2,360	
Gross margin	1,620	7,539	2,761	9,032	29,058	
R&D	14,381	14,880	17,088	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)	(24,327)	(22,268)	(6,942)	
Interest expense	72	91	99	100	100	
Total other loss						
Adj-Net income/(loss)	(21,547)	(18,485)	(24,228)	(22,168)	(6,842)	
Series A convert premium						
NI/(loss) as reported	(21,547)	(18,485)	(24,228)	(22,168)	(6,842)	
Adj-EPS ex-non-cash	(\$0.68)	(\$0.52)	(\$0.50)	(\$0.39)	(\$0.11)	
EPS as reported						
Shares out (000)	31,623	35,344	48,318	57,380	60,555	
Fully diluted shares (000)	37,228	44,022	57,318	67,380	71,555	

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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Rating and Price Target Change History



3 Year Rating Change History

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

3 Year Price Change History

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

Source: Laidlaw & Company

Created by: Blue-Compass.net

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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