

December 1, 2015

**China Licensing Deal Finalized; Reiterate Buy and Raising Price Target**

Stock Data		11/30/2015	
Rating		Buy	
Price		\$9.10	
Exchange		NASDAQ	
Price Target		\$25.00	
52-Week High		\$10.74	
52-Week Low		\$3.71	
Enterprise Value (MM)		\$45	
Market Cap (MM)		\$106	
Public Market Float (MM)		9.4	
Shares Outstanding (MM)		11.6	
3 Month Avg Volume		113,507	
Short Interest (MM)		0.73	
Balance Sheet Metrics			
Cash (MM)		\$15.10	
Total Debt (MM)		\$0.00	
Total Cash/Share		\$1.31	
Book Value/Share		\$2.15	
EPS Diluted			
Full Year - Aug	2014A	2015A	2016E
1Q	(0.14)	(0.19)	(0.19)
2Q	(0.12)	(0.16)	(0.21)
3Q	(0.18)	(0.15)	(0.22)
4Q	(0.16)	(0.18)	(0.22)
FY	(0.62)	(0.67)	(0.85)



**China licensing transaction inked—raising price target.** Yesterday, Oramed announced that the long-awaited licensing transaction for the Chinese rights to its lead molecule ORMD-0801 had been finalized. The transaction involved a \$12M equity investment by Hefei Tianhui Incubator of Technologies (HTIT), comprising 1,155,469 shares of restricted Oramed stock at a price per share of approximately \$10.39. The deal also involved an upfront payment of \$3M and near-term milestones of \$8M, with a total transaction value based on milestones alone of \$50M. According to the agreement, Oramed will also be entitled to a 10% royalty on net sales of ORMD-0801 in China. We note that the proceeds from this transaction based solely on the equity investment and upfront payment along with near-term milestones should be sufficient to permit Oramed to fund operations for at least the next two years. In the wake of this landmark achievement for Oramed, we reiterate our Buy rating and raise our 12-month price target from \$24.00 to \$25.00 per share. The ongoing Phase 2b trial of ORMD-0801 is slated to yield top-line data in the first half of next year.

**Transaction parameters provide favorable benchmark.** We believe that the share purchase component of the China transaction represents a substantial positive endorsement, given the fact that the purchase price constitutes a substantial premium to the \$7.75 share price of Oramed common stock prior to the deal. Furthermore, the valuation of the China rights to ORMD-0801 at \$50M plus royalties on net sales provides a solid benchmark for future licensing transactions involving this candidate based on other territories. We believe, therefore, that this transaction could prove pivotal in securing Oramed a substantial valuation in either a future global ex-China licensing agreement on ORMD-0801 or an acquisition of the entire company, which we continue to view as undervalued.

**Discounted technology platform.** Oramed currently trades at an enterprise value of ~\$90M, while the global diabetes market may exceed \$40B by 2018. In our view, positive Phase 2b data could make ORMD-0801 the subject of an ex-China global licensing transaction or catalyze the acquisition of Oramed in calendar 2016.

**By the numbers.** Oramed reported financial results for fiscal 2015 last week, with a full-year net loss per share of \$0.67 and a net loss per share of \$0.18 for the fiscal fourth quarter, both of which were in-line with our expectations. While R&D spending was slightly higher than our projection of \$1.2M, at \$1.4M, G&A expenditures were lower, at \$0.75M vs. our projection of \$0.9M. The firm ended fiscal 2015 with \$15.1M in cash and short-term deposits.

**Valuation methodology.** We have utilized a risk-adjusted net present value (rNPV) approach to assess Oramed's prospects. Factoring in a 12% discount rate, a 60% probability of success for ORMD-0801, and peak annual sales of \$2.1B (on which Oramed would receive double-digit percentage royalties), we derive a total rNPV for ORMD-0801 of \$130M. We add to this the additional value drivers of Oramed's pipeline, principally the firm's oral exenatide candidate ORMD-0901, to which we ascribe a collective valuation of \$180M, to derive a total firm value of \$357M. This translates into a price objective of \$25.00 per share, assuming net cash of ~\$56M and ~14.6M fully-diluted shares outstanding as of end-fiscal 2016.

**Table 1: Oramed Pharmaceuticals, Inc. (ORMP)—Historical Income Statements, Financial Projections**

FY end August 31

\$ in thousands, except per share data

	2014A	2015A				2015A	2016E				2016E	2017E	2018E
		1QA	2QA	3QA	4QA		1QE	2QE	3QE	4QE			
<b>Revenue</b>													
Product revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Research and other	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total revenue</b>	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Expenses</b>													
Cost of product and service revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Research & development	3,277	1,302	1,136	915	1,428	4,781	1,400	1,600	1,800	1,600	6,400	9,100	12,200
Selling and marketing	-	-	-	-	-	-	-	-	-	-	-	-	-
General and administrative	2,629	600	538	719	745	2,602	1,000	1,200	1,300	1,500	5,000	7,600	10,400
<b>Total expenses</b>	5,906	1,902	1,674	1,634	2,173	7,383	2,400	2,800	3,100	3,100	11,400	16,700	22,600
<b>Gain (loss) from operations</b>	(5,906)	(1,902)	(1,674)	(1,634)	(2,173)	(7,383)	(2,400)	(2,800)	(3,100)	(3,100)	(11,400)	(16,700)	(22,600)
Other income/expense													
Financial income	225	27	38	51	52	168	55	50	85	75	265	246	318
Financial expense	(11)	(21)	(1)	-	4	(18)	-	-	-	-	-	(120)	(120)
Impairment of available-for-sale securities	-	-	-	-	106	106	-	-	-	-	-	-	-
<b>Total investment income and other</b>	214	6	37	51	162	256	55	50	85	75	265	126	198
<b>Loss before provision for income taxes</b>	(5,692)	(1,896)	(1,637)	(1,583)	(2,011)	(7,127)	(2,345)	(2,750)	(3,015)	(3,025)	(11,135)	(16,574)	(22,402)
Deferred income tax benefit	(4)	-	-	-	1	1	1	1	1	1	4	4	4
<b>Net loss/income</b>	(5,696)	(1,896)	(1,637)	(1,583)	(2,010)	(7,126)	(2,344)	(2,749)	(3,014)	(3,024)	(11,131)	(16,570)	(22,398)
<b>Net loss per share (basic)</b>	(0.62)	(0.19)	(0.16)	(0.15)	(0.18)	(0.67)	(0.19)	(0.21)	(0.22)	(0.22)	(0.85)	(1.21)	(1.57)
<b>Net loss per share (diluted)</b>	(0.62)	(0.19)	(0.16)	(0.15)	(0.18)	(0.67)	(0.19)	(0.21)	(0.22)	(0.22)	(0.85)	(1.21)	(1.57)
Weighted average number of shares outstanding (basic)	9,244	10,142	10,482	10,828	11,200	10,663	12,166	13,149	13,554	13,604	13,118	13,729	14,304
Weighted average number of shares outstanding (diluted)	9,244	10,142	10,482	10,828	11,200	10,663	12,166	13,149	13,554	13,604	13,118	13,729	14,304

Source: Company reports and Rodman &amp; Renshaw estimates.

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**Market Perform (Neutral):** The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector.

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Distribution of Ratings Table				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	132	95.65%	42	31.82%
Neutral	5	3.62%	1	20.00%
Sell	0	0.00%	0	0.00%
Under Review	1	0.72%	0	0.00%
<b>Total</b>	<b>138</b>	<b>100%</b>	<b>43</b>	<b>31.16%</b>

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