

April 1, 2016

Approaching a Key Phase 2b Milestone; Reiterate Buy

Stock Data		03/31/2016
Rating		Buy
Price		\$6.66
Exchange		NASDAQ
Price Target		\$25.00
52-Week High		\$10.74
52-Week Low		\$4.15
Enterprise Value (MM)		\$74
Market Cap (MM)		\$87
Public Market Float (MM)		9.7
Shares Outstanding (MM)		13.1
3 Month Avg Volume		46,216
Short Interest (MM)		0.54
Balance Sheet Metrics		
Cash (MM)		\$15.10
Total Debt (MM)		\$0.00
Total Cash/Share		\$1.15
Book Value/Share		\$1.94
EPS Diluted		
Full Year - Aug	2014A	2015A 2016E
1Q	(0.14)	(0.19) (0.21)A
2Q	(0.12)	(0.16) (0.22)
3Q	(0.18)	(0.15) (0.21)
4Q	(0.16)	(0.18) (0.22)
FY	(0.62)	(0.67) (0.85)



Phase 2b data readout now weeks away. We are herewith reminding investors that Oramed is now only several weeks away from completing the ongoing Phase 2b trial of its lead oral insulin candidate, ORMD-0801. In our opinion, data from this trial would, if positive, constitute a transformative event for the company. The firm is also conducting a Phase 1b trial with its second pipeline candidate, ORMD-0901 and expects data imminently; this could pave the way for initiation of a Phase 2b trial with ORMD-0901 later in the year. Oramed also closed 2015 with roughly \$40M in cash, which we believe should be sufficient to fund operations for at least the next two years. Accordingly, we reiterate our Buy rating and 12-month price target of \$25.00 per share.

China licensing deal may herald further business development. In our view, Oramed's recently-completed licensing deal involving China rights to ORMD-0801 could be a harbinger of additional licensing transactions. The firm might, for example, elect to pursue other regional partnerships with other entities possessing geographically specialized commercial expertise. We believe that the valuation of the China rights to ORMD-0801 at \$50M plus royalties on net sales provides a solid benchmark for future transactions.

Discounted technology platform. Oramed currently trades at an enterprise value of ~\$74M, while the global diabetes market may exceed \$40B by 2018. In our view, positive Phase 2b data with ORMD-0801 could make this oral insulin candidate the subject of an ex-China global licensing transaction or catalyze the acquisition of Oramed in calendar 2016.

Patent estate continues to expand. Earlier this week, Oramed reported the grant of a broad technology patent entitled "Methods and Compositions for Oral Administration of Proteins" by the Indian Patent Office. In our view, this patent grant could pave the way for the company to effectively monetize its technology platform in the rapidly-growing Indian healthcare sector.

Valuation methodology, risks and uncertainties. Factoring in a 12% discount rate, a 60% probability of success for ORMD-0801, and peak annual sales of \$2.1B (on which we project double-digit percentage royalties), we derive a total rNPV of \$130M. We add to this the value from Oramed's pipeline, mainly ORMD-0901, to which we ascribe a 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 ~14.9M fully-diluted shares outstanding as of end-fiscal 2016. Risks to our price target include, but are not limited to: (i) adverse results from the Phase 2b trial of ORMD-0801; (ii) delays and potential negative data from other studies, including the Phase 1b trial of ORMD-0901; and (iii) negative regulatory actions.

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

FY end August 31

\$ in thousands, except per share data

	2014A	2015A					2016E				2016E	2017E	2018E
		1QA	2QA	3QA	4QA	2015A	1QA	2QE	3QE	4QE			
Revenue													
Product revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Research and other	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Expenses													
Cost of product and service revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Research & development	3,277	1,302	1,136	915	1,428	4,781	1,901	1,800	1,700	1,600	7,001	9,100	12,200
Selling and marketing	-	-	-	-	-	-	-	-	-	-	-	-	-
General and administrative	2,629	600	538	719	745	2,602	548	1,000	1,300	1,500	4,348	7,600	10,400
Total expenses	5,906	1,902	1,674	1,634	2,173	7,383	2,449	2,800	3,000	3,100	11,349	16,700	22,600
Gain (loss) from operations	(5,906)	(1,902)	(1,674)	(1,634)	(2,173)	(7,383)	(2,449)	(2,800)	(3,000)	(3,100)	(11,349)	(16,700)	(22,600)
Other income/expense													
Financial income	225	27	38	51	52	168	76	50	85	75	286	246	318
Financial expense	(11)	(21)	(1)	-	4	(18)	(17)	-	-	-	(17)	(120)	(120)
Impairment of available-for-sale securities	-	-	-	-	106	106	(406)	-	-	-	-	-	-
Total investment income and other	214	6	37	51	162	256	(347)	50	85	75	269	126	198
Loss before provision for income taxes	(5,692)	(1,896)	(1,637)	(1,583)	(2,011)	(7,127)	(2,796)	(2,750)	(2,915)	(3,025)	(11,080)	(16,574)	(22,402)
Deferred income tax benefit	(4)	-	-	-	1	1	1	1	1	1	4	4	4
Net loss/income	(5,696)	(1,896)	(1,637)	(1,583)	(2,010)	(7,126)	(2,795)	(2,749)	(2,914)	(3,024)	(11,076)	(16,570)	(22,398)
Net loss per share (basic)	(0.62)	(0.19)	(0.16)	(0.15)	(0.18)	(0.67)	(0.21)	(0.22)	(0.21)	(0.22)	(0.85)	(1.18)	(1.53)
Net loss per share (diluted)	(0.62)	(0.19)	(0.16)	(0.15)	(0.18)	(0.67)	(0.21)	(0.22)	(0.21)	(0.22)	(0.85)	(1.18)	(1.53)
Weighted average number of shares outstanding (basic)	9,244	10,142	10,482	10,828	11,200	10,663	11,573	12,729	13,881	13,931	13,028	14,056	14,631
Weighted average number of shares outstanding (diluted)	9,244	10,142	10,482	10,828	11,200	10,663	11,573	12,729	13,881	13,931	13,028	14,056	14,631

Source: Company reports and Rodman & Renshaw estimates.

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RETURN ASSESSMENT

Market Outperform (Buy): The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector.

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	168	97.67%	47	27.98%
Neutral	4	2.33%	2	50.00%
Sell	0	0.00%	0	0.00%
Under Review	0	0.00%	0	0.00%
Total	172	100%	49	28.49%

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