



Specialty Pharmaceuticals: Orthobiologics

Finance & Investment Club
Healthcare Sector

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Agenda

Investment Thesis

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Valuation Summary

Management & Investors

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Summary Recommendation

Recommendation Summary: Anika Therapeutics



Global Expansion



Advancing Pipeline



Strategic M&A + Infrastructure

Recommendation Summary

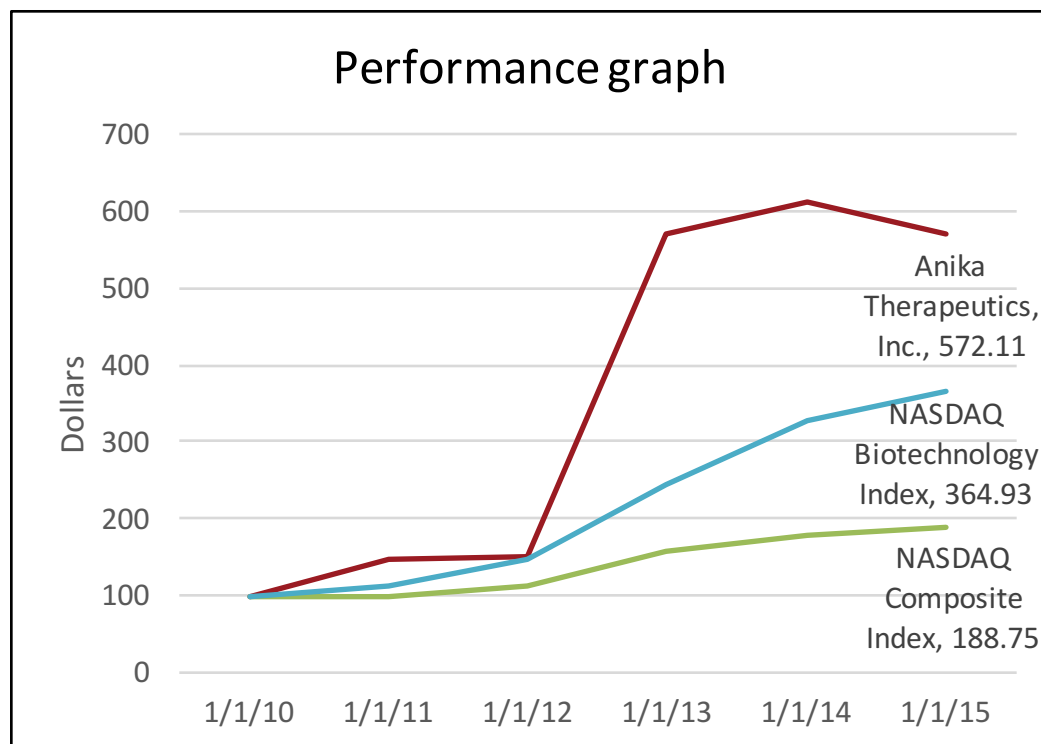
Recommendation Summary	
Anika Therapeutics Inc.	
Company Ticker:	ANIK
Current Trading Price:	\$44.29
(4/9/2016)	
Recommendation:	BUY
Target Price:	\$52.48
Upside (%):	18.5%



Anika Therapeutics Inc
NASDAQ: ANIK

Company Snapshot

Anika Therapeutics' Performance vs the NASDAQ Composite and the NASDAQ Biotech Index



~280% 3-year total shareholder return

16% FY 2015 Product Revenue Growth

#2 in the U.S Viscosupplementation market

Strong balance sheet with \$138M in cash & investments – no debt - \$30M FCF

Solid HA platform with 50+ patents owned and accessible

Company Overview

Anika Therapeutics Inc. is a specialty pharmaceutical company that develops, manufactures, and commercializes therapeutic orthobiologic products based on a proprietary biocompatible polymer called hyaluronic acid (HA).

- Commercially available in **55+ countries**.
- Expanding into world's second largest viscosupplementation market, Japan
 - Recently signed a new commercial partner in China.
- Recent advancement (2016) of HA-based **CINGAL** and **HYLOFAST** into late-stage pipeline development.
- Global manufacturing is being consolidated at the U.S headquarters to bolster a strategic shift towards commercialization.
- Renewed M&A will help to augment the already thriving organic business.
- ORTHOVISC remains the leading multiple-injection product with MONOVISC trailing behind holding the number two position in the single injection treatment segment.

Industry Definitions & Competitors

Companies in the Orthobiologics segment of the specialty pharmaceutical industry manufacture treatments for joint and muscle pain and repair.

- **Viscosupplementation:** medical procedure during which lubricating fluid (Hyaluronic acid) is injected into a joint.
- **Hyaluronic acid:** Naturally occurring, biocompatible polymer found throughout the body. Used to cushion the joint, relieve pain, and improve the elasticity and function of healthy tissue.
 - Orthobiologic, Surgical, Dermal, Other



Fibrocell Science Inc
NASDAQ: FCSC



ImmunoGen, Inc
NASDAQ: IMGN



Xoma Corporation
NASDAQ: XOMA

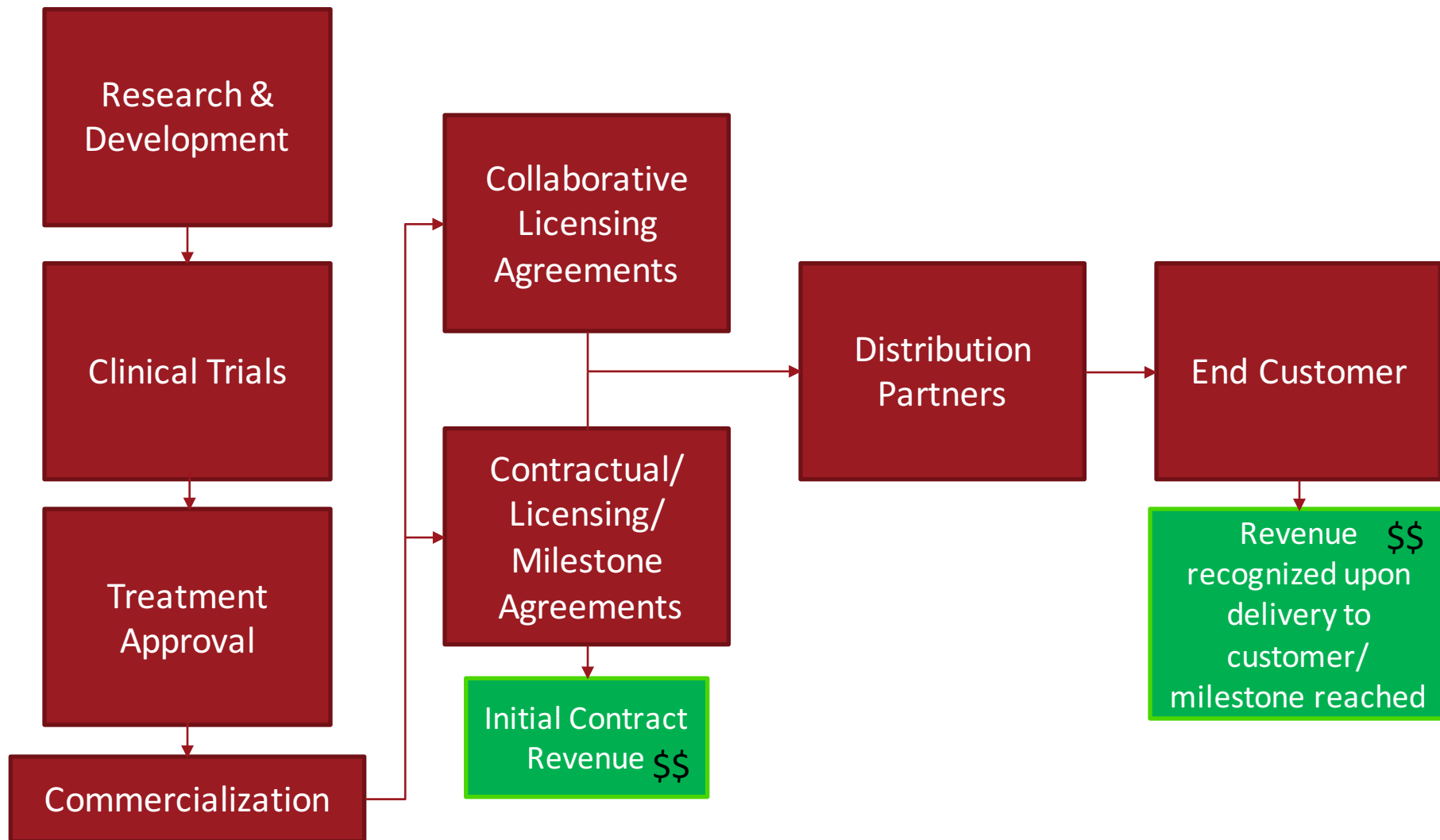


SciVision Biotech Inc
TPE: 1786



Harvard
Bioscience, Inc
NASDAQ: HBIO

Revenue generation

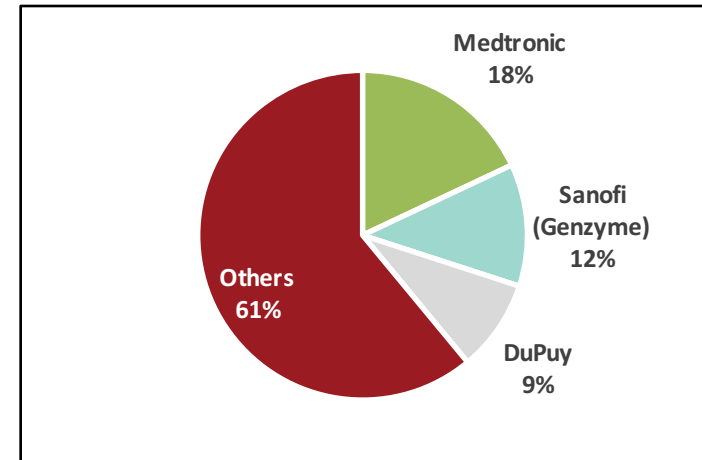


Distribution Network

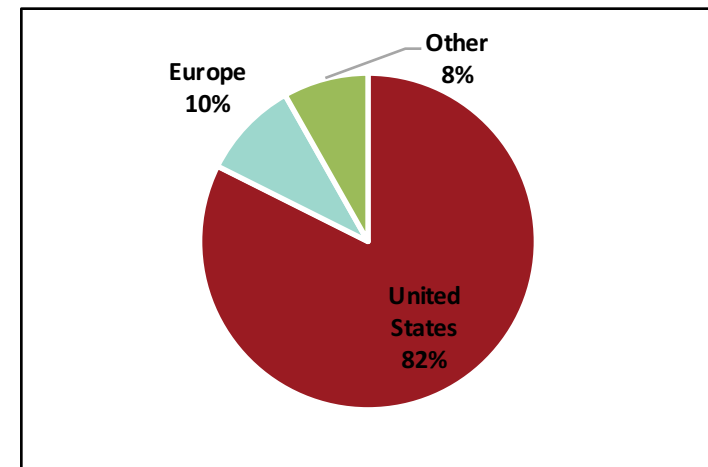
- Anika is the Orthobiologics supplier for **Medtronic** and **DePuy** giving it access to **>25%** of the market.
- 5 Customers make up **82% of revenue**
 - DePuy Mitek - 72%
 - Beohringer – 5%
 - Medtronic – 3%
 - Nordic Pharma – 2%
 - Pharmascience – 2%
- Commercial presence in 55+ countries

Anika is only 4 years into a 10 year contract with its largest customer giving it plenty of time to develop more treatments and secure additional revenue streams

Orthobiologic Sales (2015)



Revenue By Geographic Location



Trend #1: Anika Therapeutics' Growing Drug Pipeline

- Pipeline based on HA platform
- **Cingal** - Anika's second single-injection osteoarthritis product
 - First of its kind HA acid and steroid combination – foray into international markets.
 - Recently approved in Canada and EU
 - Commercial application will begin in Q2 2016
 - Seeking approval in the U.S
 - 72% patient improvement.
- **Hyalofast** – biodegradable 3-D scaffold for cartilage repair.
 - Cost-effective/single step treatment
 - 6,000 completed treatments internationally
 - Regenerative medicine industry growing at a CAGR of **12.8%** to 2019.
 - Advancements in stem cell therapy and tissue engineering therapy.

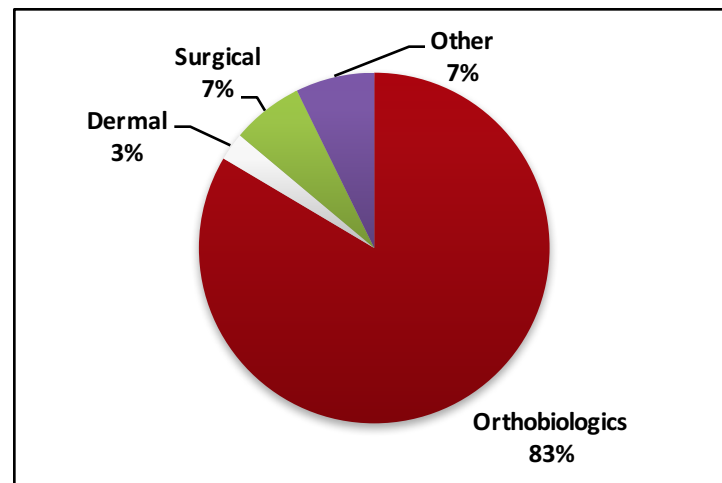


Trend #2: Shift in the Orthobiologics market to Viscosupplementation

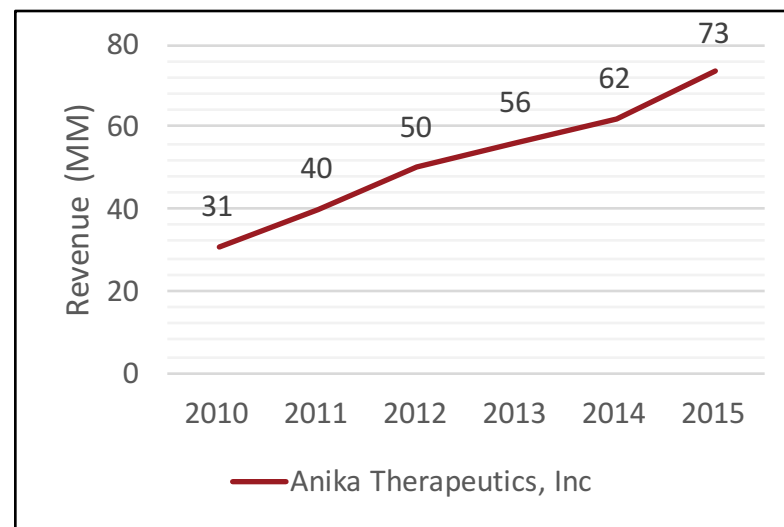
- 82% of Anika's revenue comes from Orthobiologics which is set to grow at a **12% CAGR** through 2020.
 - HA in particular is set to grow to \$11 billion by 2020
- Orthovisc** - #1 multi-injection product in the U.S.
- Monovisc** - #2 single injection product in the U.S.
 - These two products have captured ~26% of the viscosupplementation market.
 - Orthovisc** has has 38 consecutive quarters of growth yoy.

The quality and breadth of Anika's viscosupplementation portfolio will keep them competitive in the growth years to come.

Product Revenue by Product Group (2015)



Revenue from Orthobiologics Sales (MM)

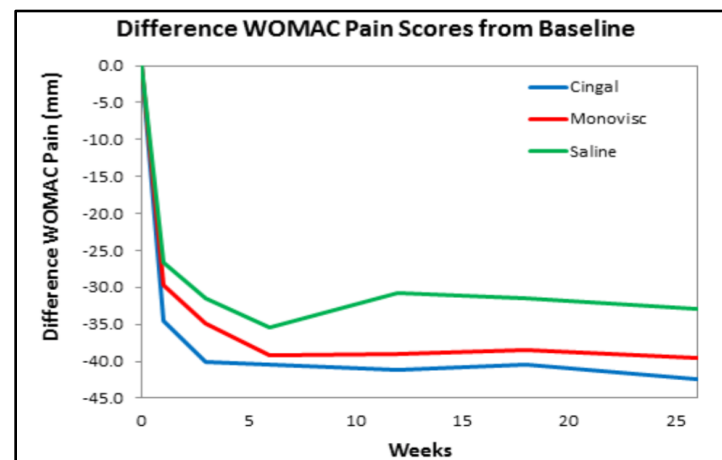
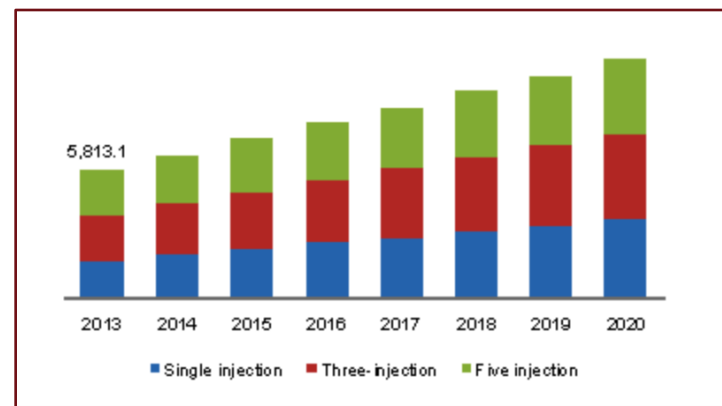


Trend #2: Shift in Orthobiologics market to Viscosupplementation

- The fastest growing segment of this market is **single-injection therapy**
 - Single-injection segment projected to grow at a **10% CAGR** to 2020.
 - Injections costs ~\$1000 means that single-injection will be preferred/more cost effective.
- Monovisc's expense might come at the cost of Orthovisc's.
- Monovisc is the only single-injection hyaluronic acid therapy from a non-avian source.
- **Monovisc** - #2 single injection product in the U.S.

Anika's position and pipeline in the single-injection market will keep it at the forefront of the industry for years to come.

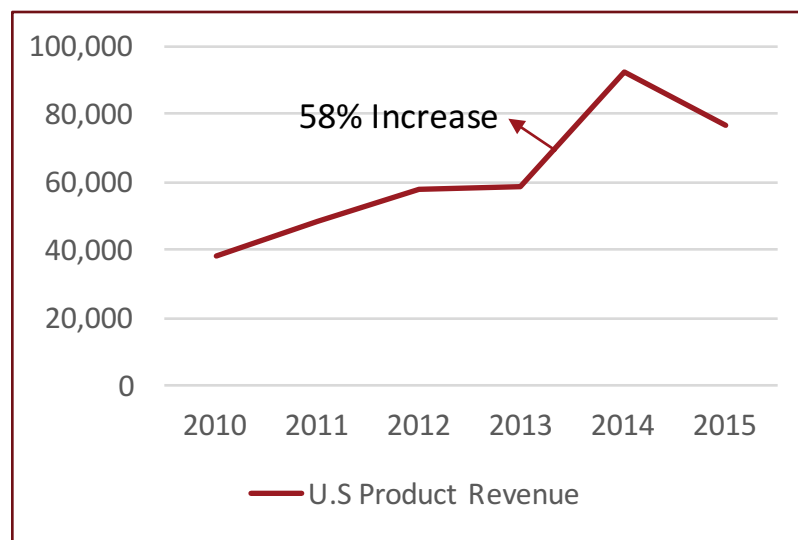
Global hyaluronic acid market, by product, 2012 – 2020 (USD Million)



Trend #3: Increased Medicare-Medicaid support/reimbursement

- Traditionally, specialty drugs/treatments mean out of pocket expense.
- CMS (Medicare coverage database) added Anika's Monovisc to that list last year and sales skyrocketed
 - **58% increase** in U.S sales
 - Monovisc is a single-injection treatment
- Medicare reimbursement means greater patient access among older populations.
- By 2030, 25% of the American adult population is projected to have doctor-diagnosed arthritis.
 - One driver of this activity level and obesity.
 - The more prevalence of the treatment, the more funding it will receive.
- Cingal is the next breakthrough treatment in Anika's portfolio with a promising future.

U.S Product Revenue



Trend Summary Slide: Headwinds and Tailwinds

Micro industry Rating:

Underweight

Key Headwinds/Tailwinds

- **Tailwind:** Viscosupplementation and Single-Injection therapies are poised to take over the Orthobiologics industry.
- **Tailwind:** Continued government Medicare/Medicaid aid will fuel revenue growth.
- **Headwind:** Strong buyer leverage will pose difficulties for Anika in the coming future.

DCF Analysis Assumptions and Overview

Multiples Method

Anika Therapeutics – DCF Assumptions & Output	
Uses Multiple Method?	Yes
Discount Rate:	9.3%
Terminal EBITDA Multiple:	10.10x
Terminal Growth Rate:	
Terminal Value:	\$1,001,619.05
PV of Terminal Value:	\$641,746.30
Sum of PV of Cash Flows:	\$125,350.97
Enterprise Value:	\$767,097.27
Terminal Value % EV:	83.7%
Enterprise Value:	\$767,097.27
Balance Sheet Adjustment:	
Implied Equity Value:	\$905,561,370
Implied Share Price:	\$48.92

Perpetuity Growth Method

Anika Therapeutics – DCF Assumptions & Output	
Uses Multiple Method?	No
Discount Rate:	9.3%
Terminal EBITDA Multiple:	10.10x
Terminal Growth Rate:	3.0%
Terminal Value:	\$758,033.72
PV of Terminal Value:	\$485,678.99
Sum of PV of Cash Flows:	\$125,350.97
Enterprise Value:	\$611,029.97
Terminal Value % EV:	79.5%
Enterprise Value:	\$611,029.97
Balance Sheet Adjustment:	
Implied Equity Value:	\$749,494,070
Implied Share Price:	\$59.11

Public Comps

Comparable Company Analysis									
LTM data (MM-DD-YYYY)									
Company	Ticker	EV	Market Cap	Revenue	EBITDA	Net Income	P/E	EV/EBITDA	EV/Revenue
Anika Therapeutics Inc	ANIK	551,440.5	689,904.6	92,999.0	51,909.0	30,758.0	22.4x	10.6x	5.9x
Exactech, Inc.	EXAC	280,700.0	277,500.0	241,800.0	40,700.0	14,800.0	18.8x	6.9x	1.2x
Fibrocell, Inc.	FCSC	77,000.0	106,200.0	493.0	(36,640.0)	(34,453.0)	N/A	-2.1x	156.2x
Harvard Bioscience, Inc	HBIO	106,388.0	92,328.0	110,700.0	5,100.0	(1,900.0)	N/A	20.9x	1.0x
SciVision Biotech Inc	SCIV	90,900.0	104,700.0	237,000.0	27,800.0	21,700.0	4.8x	3.3x	0.4x
XOMA Corp	XOMA	78,500.0	95,800.0	55,400.0	(34,500.0)	(17,400.0)	N/A	-2.3x	1.4x
High							22.4x	20.9x	156.2x
Mean							15.3x	6.2x	27.7x
Median							18.8x	5.1x	1.3x
Low							4.8x	-2.3x	0.4x

Valuation Summary with Weights and Reasoning

Methodology	Price/Share	Weight
Discounted Cash Flow		
Perpetuity Growth	\$48.92	60%
Multiples	\$59.11	30%
Comparable Company		
P/E	\$37.64	5%
EV/EBITDA	\$26.26	5%
Target Price/Share	\$50.28	

- 90% weightage to DCF because –
 - A strong product line and promising pipeline mean continued growth.
 - Historical data going back 20 years marks consistent performance.
- 10% weightage to trading comps because –
 - Many of the comparable companies had negative revenues and EBITA making them poor indicators of Anika Therapeutics' performance.
 - Comparables produce inaccurate results due to inefficiency within the healthcare sector.

Quantitative and Qualitative Disclosures about Market Risk

Highly Concentrated Customer Base	<ul style="list-style-type: none">Five customers account for 84% of product revenue. The failure of these companies to make purchases in historical amounts could greatly lower the company's valuation.
Renegotiation/ Purchase Agreements	<ul style="list-style-type: none">Delay, deferment, renegotiation of purchase agreements + customer leverage. Anika's small size puts them at a disadvantage.
Government Approval	<ul style="list-style-type: none">Failure to obtain government approval could adversely affect financial, operational, and and business conditions due to heavy R&D expenditure.

Key Takeaway

As Anika Therapeutics continues to operate with a limited network of customers, they will face the risk of negatively impacting their financial situation. In order to stay safe the company must diversify and expand its customer base and develop alternative commercial strategies.

Recommendation Summary: Anika Therapeutics



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THANK YOU

Company Overview (Why did I pick it?)

- Anika Therapeutics Inc. is a specialty pharmaceutical company that develops, manufactures, and commercializes therapeutic orthobiologic products based on a proprietary biocompatible polymer found throughout the body called hyaluronic acid (HA).
 - With 20 years in the field, Anika has brand recognition and many competitive advantages.
 - The usage of viscosupplementation methods utilizes the lowest concentrations of non-animal sourced HA manufactured in an industry manufacturing facility.
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 - With 20 years in the field, Anika has brand recognition and many competitive advantages.
 - (how much of the orthobiologics market does anika capture?)