

19 November 2010

Merrion Pharmaceuticals

Year end	Revenue (€m)	PBT* (€m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/08	1.3	(5.1)	(0.3)	0.0	N/A	N/A
12/09	6.3	(1.6)	(0.1)	0.0	N/A	N/A
12/10e	4.6	(2.0)	(0.1)	0.0	N/A	N/A
12/11e	2.5	(3.7)	(0.2)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items.

Investment summary: Switch to breast cancer

An FDA review has switched Orazol's development plan in the US from bone metastases, the indication agreed with the CHMP, to adjuvant early-stage breast cancer therapy. This opens the way to a serious Orazol deal, ideally by mid 2011, and an expected shift in EU indication from bone to breast. This would be a new and unique indication and a better market position than for only bone metastasis.

FDA steers a breast cancer phase III indication

The FDA indicated that Orazol should be developed as an early-stage breast cancer adjuvant therapy, both pre and post menopausal; Novartis has an FDA application for its *iv* drug Zometa for a pre-menopausal indication status unclear. Zometa's patent expires in 2012 in the EU and in 2013 in the US. Orazol, as a convenient oral form of zoledronic acid, could dramatically change the market dynamics of adjuvant therapy. In addition, the US trial design could enable a bone metastasis claim.

Scientific validation: Survival and stem cells

[ABCSG-12](#), a 1,800 patient study, showed that zoledronic acid (ZA) reduced risk of progression by 36%: 94% vs 90.8% of patients survived disease-free for nearly four years. ZA might help immune attacks on cancer stem cells, [Todaro](#). The Z-FAST and Zo-FAST [studies](#) showed that ZA plus hormone therapy increased bone density in cancer patients. [Markers](#) (VEGF) show low-dose weekly ZA impacts tumour growth.

Breast cancer: bigger than bone metastases

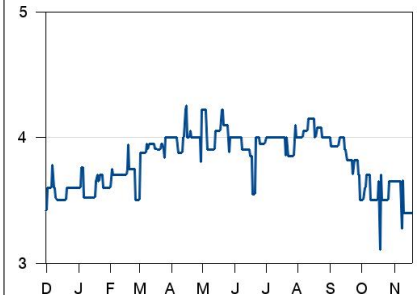
In 2009, 254,650 US women were diagnosed with breast cancer; some 40,170 women died. If approved for adjuvant use, many patients could use Orazol and might be taking it for five years; survival is over 98% with localised disease which is c 60% of cases. Multiple myeloma is also commonly treated with Zometa and has a 16,500 incidence. Another adjuvant indication could be prostate cancer.

Valuation: Potential for rapid value growth on partnering

We indicate a value of €103m or €5.81/share using a DCF model. Orazol partnering would remove a key uncertainty, but this not likely until H111. Cash will rise as deals are signed: a further €1m plus milestone are due following Novo insulin/GLP-1 trials.

Price **€3.4**
Market cap **€58m**

Share price graph



Share details

Code MERR
Listing IEX
Sector Pharmaceuticals
Shares in issue 17.1m

Price

52-week High Low
€4.25 €3.00

Balance sheet as at 30 June 2010

Debt/equity (%) N/A
NAV per share (c) 32
Cash (€m) 5.9

Business

Merrion is an Irish company that uses technology acquired from Elan to reformulate injectable drugs into oral formulations. Its lead projects are Orazol, insulin and GLP-1 (in collaboration with Novo Nordisk).

Valuation

	2009	2010e	2011e
P/E relative	N/A	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	N/A	N/A	N/A
ROE	N/A	N/A	N/A

Geography based on revenues

	UK	Europe	US	Other
0%	100%	0%	0%	0%

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Exhibit 1: Financials

Note: milestone payments from Novo in respect to the oral insulin programme are expected in H1 2011 but are not included in the forecast of revenues or cash. Revenues include deferred income from early Novo deals on insulin and GLP-1 delivery systems. Other deals and projects are likely to occur in 2011 and a major licensing deal on Orazol is indicated at some time

Year end 31 December	€000s	2008	2009	2010e	2011e
		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue		1,340	6,335	4,600	2,470
Cost of Sales		(420)	(1,256)	(1,179)	(360)
Gross Profit		920	5,079	3,421	2,111
EBITDA		(5,056)	(1,320)	(1,451)	(3,130)
Operating Profit (before GW and except.)		(5,425)	(1,807)	(1,938)	(3,617)
Goodwill Amortisation		0	0	0	0
Exceptionals		0	0	0	0
Other		0	0	0	0
Operating Profit		(5,425)	(1,807)	(1,938)	(3,617)
Net Interest		363	178	(20)	(36)
Profit Before Tax (norm)		(5,062)	(1,629)	(1,958)	(3,653)
Profit Before Tax (FRS 3)		(5,062)	(1,629)	(1,958)	(3,653)
Tax		0	0	0	0
Profit After Tax (norm)		(5,062)	(1,629)	(1,958)	(3,653)
Profit After Tax (FRS 3)		(5,062)	(1,629)	(1,958)	(3,653)
Average Number of Shares Outstanding (m)		16.7	17.1	17.1	17.1
EPS - normalised (c)		(0.3)	(0.1)	(0.1)	(0.2)
EPS - FRS 3 (c)		(0.3)	(0.1)	(0.1)	(0.2)
Dividend per share (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		68.7	80.2	74.4	85.4
EBITDA Margin (%)		N/A	N/A	N/A	N/A
Operating Margin (before GW and except.) (%)		N/A	N/A	N/A	N/A
BALANCE SHEET					
Fixed Assets		788	5,573	5,107	4,641
Intangible Assets		0	558	279	0
Tangible Assets		788	5,015	4,828	4,641
Investment in associates		0	0	0	0
Current Assets		8,893	9,689	5,486	1,962
Stocks		0	0	0	0
Debtors		753	2,192	1,750	1,502
Cash		8,140	7,218	3,736	460
Current Liabilities		(4,009)	(3,679)	(2,420)	(2,130)
Creditors		(4,009)	(3,207)	(1,947)	(1,658)
Short term borrowings		0	(472)	(472)	(472)
Long Term Liabilities		0	(5,516)	(4,053)	(2,506)
Long term borrowings		0	(2,786)	(2,646)	(2,506)
Other long term liabilities		0	(2,730)	(1,408)	0
Net Assets		5,671	6,067	4,120	1,968
CASH FLOW					
Operating Cash Flow		(2,907)	(1,072)	(3,022)	(2,800)
Net Interest		299	212	(20)	(36)
Tax		0	0	0	0
Capex		(135)	(4,816)	(300)	(300)
Acquisitions/disposals		0	0	0	0
Financing		11	1,502	0	0
Dividends		0	0	0	0
Net Cash Flow		(2,732)	(4,174)	(3,342)	(3,136)
Opening net debt/(cash)		(10,870)	(8,141)	(3,960)	(619)
HP finance leases initiated		0	0	0	0
Other		3	(6)	0	0
Closing net debt/(cash)		(8,141)	(3,960)	(619)	2,517

Source: Edison Investment Research, Merrion Pharmaceuticals accounts

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