

Cardiome Pharma Corp.

(CRME - NASDAQ)

Cipher Transaction to Reduce Cost and Add Cash

Based on our DCF model and a 15% discount rate, Cardiome is valued at approximately \$4.00 per share. Our model applies a 70% probability of EMA approval and European commercialization for Trevyent.

Current Price (4/5/2018) **\$2.34**
Valuation \$4.00

OUTLOOK

Cardiome has a portfolio of six hospital-based medicines in cardiology and infectious disease. In November 2013, Cardiome acquired Aggrastat and Correvio in a transformation acquisition that provided the infrastructure for recent and future acquisition growth.

The company's strategy is to acquire drugs in existing and adjacent spaces of hospital care to leverage their commercialization platform. Currently, there are five revenue-generating products.

The groundwork undertaken for Xydalba in 2017 combined with new sales from Zevtera should accelerate growth for 2018. Sales from Esmocard Lyo and potentially other additions may also augment the growth trajectory.

In 2015, Cardiome signed a license agreement for commercialization of Trevyent in the EU, Canada and Middle East. An MAA and NDS are expected to be filed for approval in the EU and Canada respectively in 2018 and sales are expected in 2019. Additional upside exists as Trevyent is approved and commercialized.

SUMMARY DATA

52-Week High **4.84**
 52-Week Low **1.29**
 One-Year Return (%) **-20.9**
 Beta **-0.19**
 Average Daily Volume (sh) **174,577**

Shares Outstanding (mil) **33.9**
 Market Capitalization (\$mil) **79.3**
 Short Interest Ratio (days) **0.61**
 Institutional Ownership (%) **N/A**
 Insider Ownership (%) **N/A**

Annual Cash Dividend **\$0.00**
 Dividend Yield (%) **0.00**

5-Yr. Historical Growth Rates
 Sales (%) **2,943**
 Earnings Per Share (%) **N/A**
 Dividend (%) **N/A**

P/E using TTM EPS **N/A**
 P/E using 2018 Estimate **N/A**
 P/E using 2019 Estimate **N/A**

Zacks Rank **N/A**

Risk Level **Above Average**
 Type of Stock **Small-Growth**
 Industry **Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue

(In millions of US\$)

| | Q1 | Q2 | Q3 | Q4 | Year |
|------|---------|---------|---------|---------|----------|
| | (Mar) | (Jun) | (Sep) | (Dec) | (Dec) |
| 2016 | \$7.1 A | \$5.9 A | \$5.2 A | \$7.0 A | \$25.3 A |
| 2017 | \$5.2 A | \$5.8 A | \$6.0 A | \$7.0 A | \$24.0 A |
| 2018 | | | | | \$30.5 E |
| 2019 | | | | | \$34.2 E |

Earnings per Share

| | Q1 | Q2 | Q3 | Q4 | Year |
|------|-----------|-----------|-----------|-----------|-----------|
| | (Mar) | (Jun) | (Sep) | (Dec) | (Dec) |
| 2016 | -\$0.06 A | -\$0.37 A | -\$0.19 A | -\$0.18 A | -\$0.77 A |
| 2017 | -\$0.20 A | -\$0.26 A | -\$0.20 A | -\$0.25 A | -\$0.90 A |
| 2018 | | | | | -\$0.66 E |
| 2019 | | | | | -\$0.59 E |

What's New

2017 Full Year Operational and Financial Results

Cardiome Pharma Corp. (NASDAQ: CRME) issued a press release reporting 2017 full-year results on March 13, 2018, and filed its 2017 financial statements and management discussion & analysis on SEDAR three weeks later. The company posted full year revenues of \$24.0 million, and net loss of (\$0.90) per share. During 2017, Cardiome advanced Xydalba in Europe with a commercial launch in several EU states. Brinavess also expanded its reach with a product launch in South Africa, an approval in the UAE and the submission of a MAA in Pakistan. In China, the regulatory authorities expanded the indication for Aggrastat and ZAO Firma Euroservice will navigate the drug through the regulatory process in Russia and subsequently commercialize it. Esmocard had first sales in 4Q:17 and is off to a strong start in 2018. Partner SteadyMed also made progress with the FDA in moving Trevyent forward through the approval process. Pre-design verification tests are underway and a 505(b)(2) submission is expected later this year.

The big news for Cardiome was announced on March 20, where Cipher Pharmaceuticals (TSX: CPH) will acquire Cardiome's Canadian business portfolio, acquire all of its outstanding shares and reissue new shares to investors on a one to one basis. The transaction will grant CAD\$25.5 million to Cardiome in return for the Canadian assets allowing the new entity to focus its efforts on developing its European assets.

Exhibit I – Cardiome Portfolio

| Drug | Indication | Market |
|-----------------|------------------------------|-----------------------------|
| Aggrastat | Blood thinner | Worldwide |
| Brinavess | Regulate Afib long term | Canada, EU, OUS |
| Esmocard | Supraventricular tachycardia | EU, Canada, MidEast |
| Trevyent | Vasodialator for PAH | EU, Canada, Israel, Mideast |
| Xydalba | Anti-bacterial (ABSSSI) | Canada, EU, Mideast |
| Zevtera/Mabelio | IV antibiotic/pneumonia | Europe & Other |

2017 was an important year for Cardiome as the company continued to seek regulatory approval for the members of its portfolio, conduct pricing negotiations and begin the commercialization process with top hospitals in their licensed regions. Despite the groundwork, revenues declined by 5% due to timing of Aggrastat distributor sales. This was partially offset by Xydalba sales increases. Gross margins for the year declined to 71.5% from 74.8% in 2016¹ due to product mix changes.

Sales, general and administrative expenses were \$36.7 million, increasing 20% as the company increased the size of its European direct sales force to support the commercialization of Xydalba, Zevtera/Mabelio and its Canadian sales force for the rest of the portfolio. Higher stock-based compensation and business development costs also contributed to the increase.

Interest expense increased in 2017 due to the amended terms of the CRG Term Loan and a higher loan balance. The net of these expenses and other items including a minimal amount of tax credit resulted in full year net loss of (\$29.8) million or (\$0.90) per share which compares to 2016 net loss of (\$19.6) million or (\$0.77) per share. Year-end cash stands at \$22.1 million compared to \$26.8 million at the end of 2016. Cash burn in FY:17 was (\$29.4) million, essentially flat with 2016 levels. In the second and third quarters of 2017, Cardiome raised over \$28 million in debt and common stock proceeds, which were partially offset by issuance costs and paydown of other items.

Under the current structure, Cardiome has sufficient cash to fund operations until the second half of 2018. However, following the end of 4Q:17, Cardiome announced an agreement with Cipher Pharmaceuticals which will provide an additional CAD\$25 million and reduce costs, which will materially increase the runway as the company rises towards profitability.

¹ Our calculations exclude license and other fees from gross margin.

Cipher Pharmaceuticals

On March 20, 2018, Cardiome and Cipher Pharmaceuticals (TSX: CPH) announced an arrangement where Cipher will acquire the Cardiome's Canadian business portfolio. The portfolio includes Aggrastat, Brinavess, Esmocard, Xydalba and Trevyent. The transaction will be consummated by Cipher acquiring all of the shares of Cardiome, followed by a restructuring of Cardiome where all shareholders of old Cardiome will receive shares of new Cardiome in a 1:1 ratio. The deal will provide cash of CAD\$25 million to Cardiome and will lighten the cost structure related to Canadian sales and regulatory efforts. It will also allow further focus on Cardiome's primary market in Europe.

The companies are preparing an information circular that should be completed in April with additional detail and a vote on the proposal by shareholders in early May. Approvals are needed from the court in Vancouver B.C. as well as the NASDAQ and TSE. We do not anticipate any problems with this process and Cardiome has hired legal counsel to ensure that the applications for transition from Cardiome to Correvio go smoothly with the judge and the exchanges. Based on the timing of the shareholder meeting and vote on the acquisition, we anticipate the transaction to be complete prior to the filing deadline for 1Q:18.

The transaction provides a substantial level of NOLs along with the assets that will benefit Cipher which will be recognized in the cash value provided to the company. The amount of the NOLs to be transferred is approximately CAD\$200 million. For future partnerships, Cipher may act as the partner for the Canadian region. There remains CAD\$100 million in NOLs that Cardiome will be able to use for eventual profits in Europe which we will reflect in our model after the conclusion of the transaction. The new company will be called Correvio Pharma Corp.

2017 Commercialization

Cardiome made substantial progress in 2017 advancing its drug products into new markets and forging additional and stronger relationships with partners. The leading product, Aggrastat, which made up 84% of 2017 sales saw an expansion of its indication in China to include patients with STEMI, and the approval of a high dose bolus regimen in Canada. The company also entered into a distribution agreement with ZAO Firma Euroservice, who will advance Aggrastat through the regulatory process in Russia and commercialize following approval. Partner Aspen launched Brinavess in South Africa and partner ATCO Lab submitted an MAA in Pakistan. Brinavess received approval in the UAE and partner Algorithm expects to commence commercialization activities for the drug in 2Q:18. Partner Eddingpharm is preparing to start a Phase III trial for atrial fibrillation in China to consummate Brinavess development rights in the region. Xydalba began its launch in Sweden, Finland and the Republic of Ireland. Esmocard saw first sales in Italy and France in the fourth quarter, and is expected to exhibit accelerating growth in 2018. Due to high costs, Cardiome has decided to withdraw Esmocard from Belgium but maintains its \$3 - \$5 million sales target in the region.

Exhibit II – Cardiome Portfolio Sales Potential

- Aggrastat Consistent, steady sales of \$15-20M
- Brinavess Est. Peak Sales = \$5-10M (ex-US)
- Xydalba Est. Peak Sales = \$50-60M
- Esmocard Est. Peak Sales = \$3-5M
- Zevtera / Mabelio Est. Peak Sales = \$15-20M
- Trevyent Est. Peak Sales = \$75-85M

Peak sales potential of \$163-200 million for existing portfolio

Significant Event Timeline

Cardiome has a number of recent and upcoming milestones related to new geographic launches, interacting with regulatory authorities regarding the approval process and consummating the transaction with Cipher. Over the next year we anticipate the following events to take place.

- April 2018 – Information Circular distributed to Shareholders regarding Cipher transaction
- May 9, 2018 – Special meeting to consider Cipher transaction
- Mid-May 2018 – Conclude transaction with Cipher
- 4Q:17 / 1Q:18 – Commercial rollout of Brinavess in Canada
- FY:18 – Business development efforts in targeted areas
- FY:18 – Capital raise using ATM
- 2Q:18 – Launch of Zevtera/Mabelio in Spain & Ireland
- 2Q:18 – Proceed with registrational trial in China with Eddingpharm
- 4Q:18 – Launch Xydalba in Belgium & Netherlands
- 1H:19 – Capital raise using available funds from the debt facility
- FY:19 – Filing for approval of Trevyent in EU
- FY:20 – Launch of Trevyent in EU and other regions

Summary

Cardiome continues to execute on its efforts to obtain regulatory approval for its portfolio of products, create new relationships with partners for distribution outside its core areas and penetrate individual countries with price negotiation efforts and product inclusion on hospital formularies. We expect a sharp increase in 2018 revenue growth as 2017's groundwork yields increased penetration with a larger salesforce and additional products to sell. The recently announced transaction with Cipher will reduce costs and provide additional capital which will help with the cash runway until 2019. We maintain our target price of \$4.00 per share and expect to update our estimates following the reorganization and first quarter results.

PROJECTED FINANCIALS

Cardiome Pharma Corp. - Income Statement

| Cardiome Pharma Corp (USD) | 2016 A | Q1 A | Q2 A | Q3 A | Q4 A | 2017 A | 2018 E | 2019 E |
|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Product & royalty revenues | \$25.1 | \$5.2 | \$5.7 | \$6.0 | \$7.0 | \$23.8 | \$30.3 | \$34.2 |
| Licensing & other fees | \$0.2 | \$0.0 | \$0.0 | \$0.1 | \$0.1 | \$0.2 | \$0.2 | \$0.2 |
| Total Revenues | \$25.3 | \$5.2 | \$5.8 | \$6.0 | \$7.0 | \$24.0 | \$30.5 | \$34.4 |
| Cost of Product Sales | 20.8% | -26.7% | -2.7% | 15.0% | -0.3% | -4.9% | 27.1% | 12.8% |
| Gross Margin | \$6.3 | \$1.6 | \$1.7 | \$1.5 | \$1.9 | \$6.8 | \$8.4 | \$10.3 |
| SG&A | 74.8% | 68.3% | 69.8% | 75.1% | 72.3% | 71.5% | 72.4% | 70.0% |
| Amortization | \$30.5 | \$8.2 | \$9.6 | \$8.5 | \$10.4 | \$36.7 | \$37.8 | \$39.0 |
| Other | \$0.0 | \$0.8 | \$0.8 | \$0.9 | \$1.0 | \$3.5 | \$3.8 | \$3.6 |
| Operating Income | \$3.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 | \$0.0 |
| <i>Operating Margin</i> | (\$14.6) | (\$5.5) | (\$6.4) | (\$4.8) | (\$6.3) | (\$23.0) | (\$19.4) | (\$18.5) |
| Interest Expense | <i>(\$0.6)</i> | -105.6% | -111.0% | -80.4% | -90.0% | -95.7% | -63.7% | -53.7% |
| Total Other Income | \$2.5 | \$0.8 | \$1.2 | \$1.8 | \$1.9 | \$5.7 | \$5.2 | \$6.5 |
| Pre-Tax Income | \$2.4 | \$0.0 | \$0.9 | (\$0.1) | (\$0.1) | \$0.8 | \$0.0 | \$0.0 |
| Taxes & Other | (\$19.5) | (\$6.3) | (\$8.5) | (\$6.5) | (\$8.1) | (\$29.4) | (\$24.6) | (\$25.0) |
| <i>Tax Rate</i> | \$0.2 | \$0.0 | \$0.0 | \$0.1 | \$0.3 | \$0.4 | \$0.0 | \$0.0 |
| Net Income | -0.8% | -0.7% | 0.1% | -1.1% | -3.2% | -1.2% | 0.0% | 0.0% |
| Reported EPS | (\$19.6) | (\$6.3) | (\$8.5) | (\$6.6) | (\$8.4) | (\$29.8) | (\$24.6) | (\$25.0) |
| <i>YOY Growth</i> | (\$0.77) | (\$0.20) | (\$0.26) | (\$0.20) | (\$0.25) | (\$0.90) | (\$0.66) | (\$0.59) |
| Shares Outstanding | -42.4% | 226.6% | -28.9% | 5.4% | 40.8% | 15.8% | -27.0% | -9.3% |
| | 25.3 | 31.9 | 32.4 | 33.9 | 33.9 | 33.2 | 37.6 | 42.0 |

Source: Company Filing // Zacks Investment Research, Inc. Estimates

HISTORICAL STOCK PRICE

Cardiome Pharma Corp. – Five Year Price Chart²



² Chart provided courtesy of Yahoo Finance.

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