Kozak on how Valeo Pharma’s innovative natural health-based product lines are carving their niche in specialty pharmaceuticals

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Type in the phrase “modern medicine” into any search engine, and you will be inundated with results – 1.2 million just came up. Through the 19th, 20th and now the 21st centuries, the way that people are living, and working has changed dramatically. These changes especially, affected the risk of infectious diseases – clearly evidenced by what we are seeing with the current coronavirus global pandemic.

Starting in the early 1800s, scientists began to understand the mechanism of infections, disease etc. Notable accomplishments in medical microbiology were made by Louis Pasteur and others to start an evolution which over the last 200 years has given us a world in which pharmaceuticals are available for almost anything imaginable, including weird little bacteria in southeast Asia that create a body full of sepsis.

The pharmaceutical industry is one of the most active and innovative industries in Canada and it is estimated to be the 10th largest market in the world. It is made up of companies developing and manufacturing innovative medicines and pharmaceutical products as well as a rapidly developing field in natural health-based and biologic products. One of these companies is Valeo Pharma Inc. (CSE: VPH | OTCQB: VPHIF). The company went public through a non-offering prospectus at the end of 2018 and currently has a market capitalization of approximately C$51 million.

Founded in 2003, the company initially focused on dermatology and hospital products, a product portfolio that was sold in 2014. Since that time, it has been acquiring innovative, patent protected, pharmaceutical products in specific therapeutic areas for the Canadian market, building a strong diversified pipeline with access to proprietary deal flow. In select situations, Valeo will also engage in the in-licensing, acquisition of product rights or development of injectable generic products.

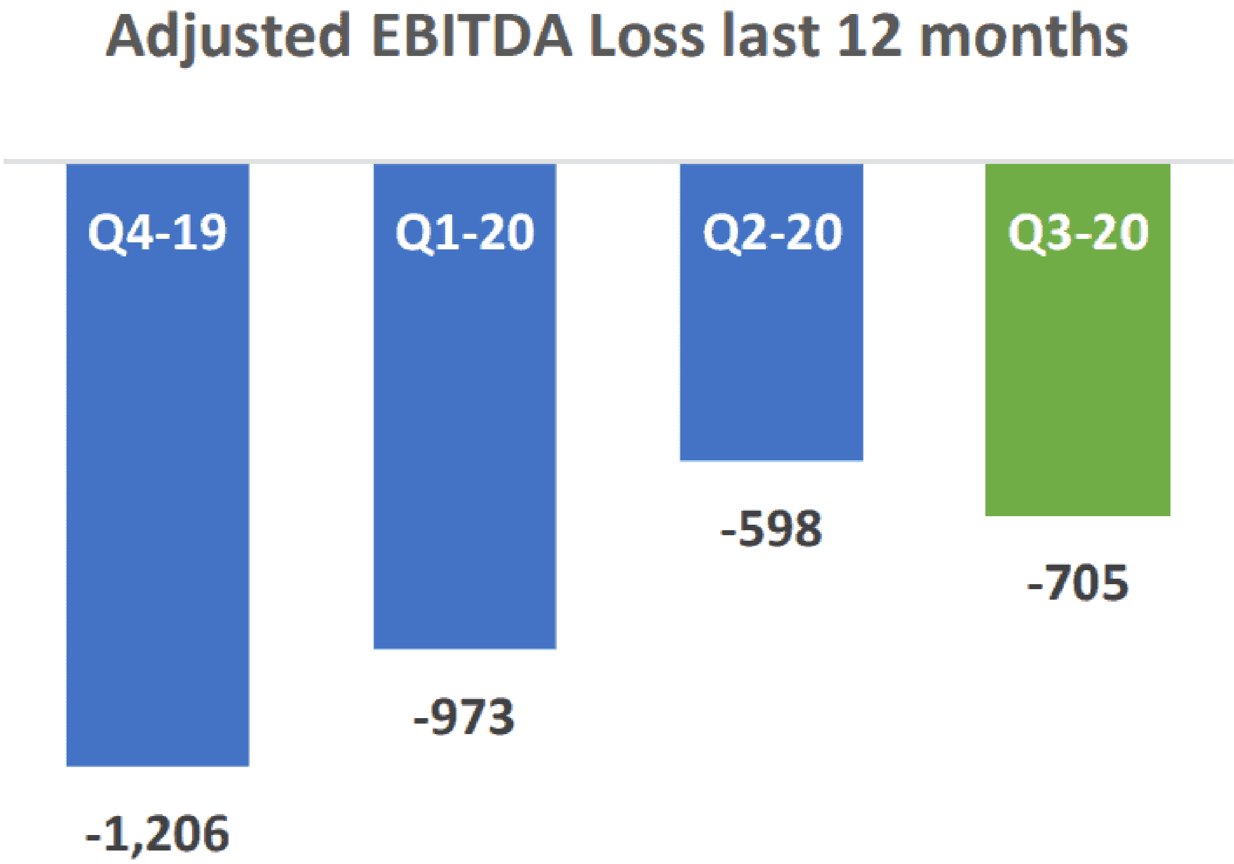
Valeo’s strategy is focused on three key therapeutic areas:

- Neurology (including Multiple Sclerosis and Parkinson’s Disease and others)
- Oncology (including soft tissue sarcoma, ovarian cancer and others)
- Hospital Products (pain management, including narcotics, anti-infectives and critical care)

Valeo is focused on those therapeutic fields where a relatively small number of general practitioners or specialist physicians account for the majority of prescriptions written. This enables the company to use a relatively small salesforce to target these physicians and to profitably capture market share. This targeted approach may be applied in assessing all innovative pharmaceutical products and is a determinant of whether Valeo will enter a new therapeutic area or add a new product.

The company has a stated desire “to become a leading Canadian focused Specialty Pharmaceutical company and be the partner of choice for International companies wishing to enter the Canadian market.” Brand-name products account for 79.3% of Canadian sales and 30% of prescriptions. Generics account for the rest of an estimated C$40 billion market in 2018, so there is room for a profitable, well-run company.

The management team has almost 20 years of experience in the pharma industry in Canada, with some well-established relationships. But it is still about the numbers – at the end of Q3-2020 (July 31), the company’s product portfolio included eight commercial stage products as well as five products currently in pre-launch and/or regulatory stage.



Source: Valeo Pharma

As shown above, the company is not yet EBITDA profitable, but according to management, "Q4-20 and beyond, with new products sequentially contributing to our topline, and the benefit of operational streamlining, we expect our key operational metrics (gross to net ratio, product mix and SG&A leverage) to improve, thus driving incremental gross and net margins and positioning Valeo to exit Q4-20 as a profitable EBITDA company."

The company continues to search for innovative products within its targeted areas of focus and maintains active business development activities to achieve this goal. The regulatory environment in Canada is such that the average timeline from commencing the registration process to receiving marketing approval ranges from 12-18 months. In circumstances where a product has an existing DIN, the time between the signing of the license and the start of commercialization is approximately 6-9 months. Management believes that the company possesses all the required expertise to manage all aspects relative to the filing, registration, as well as successfully launching the products currently in its pipeline.

The pharmaceutical industry is very competitive, but it would appear that Valeo has carved out a competitive niche and has the experience to grow and prosper. The company just raised C$6.9 million through a bought deal financing, so is financed to support operations should their forecast of EBITDA profitability by the end of their fiscal year not be realized. The company had approximately $3.0 million of debenture debt maturing in 2022 (~50%) and 2023 (~50% and convertible) at the end of July 2020, so there is no immediate stress assuming revenue growth is achieved.

This is probably a company to watch, as demonstrated by the share price after Q2-2020 financial results were announced (July 2, 2020). Delivering on management’s strategy will be rewarded in the marketplace.

Source: TMX.COM