

Futura Medical

Update

Earlier US Eroxon launch brings forward profitability

11 September 2024

We have upgraded our revenue forecasts and valuation following interim results and the earlier and imminent US launch by partner Haleon, which we previously anticipated in 2025. The US launch, expected in October, will trigger a milestone and recurring royalties on net Eroxon sales. Commercial success in the US will be transformational, ensuring Futura's sustainable and growing profitability. Meanwhile, existing partners outside of the US continue to execute on launches, with Eroxon now available in over ten countries and further launches planned in H224 and into 2025. Real-world evidence remains consistent in terms of Eroxon's efficacy, and learnings from initial launches are being effectively utilised to refine marketing strategies in order to optimally target key audiences. This will likely be key for Eroxon's success, with encouraging signs from initial, albeit limited, repurchase rate data from first launches. Our Futura Medical valuation is increased to £392m, or 130p per share.

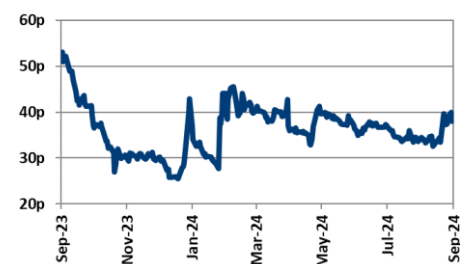
| Year-end: December 31 | 2022 | 2023 | 2024E | 2025E |
|-----------------------|-------|-------|-------|-------|
| Revenues (£m) | 0.0 | 3.1 | 13.3 | 18.5 |
| Adj. EBITDA (£m) | (6.2) | (4.1) | 2.7 | 8.6 |
| Adj. PBT (£m) | (6.2) | (4.2) | 2.6 | 8.3 |
| Net Income (£m) | (5.8) | (6.5) | 0.5 | 7.1 |
| EPS (p) | (2.0) | (2.2) | 0.2 | 2.4 |
| Cash (£m) | 4.0 | 7.7 | 4.6 | 6.2 |

Source: Trinity Delta Note: Adjusted numbers exclude share-based payments and exceptionals

- US launch in October triggers revenue upgrades** With Haleon confirming that Eroxon will be available in October in stores and online (online pre-orders are currently being taken for delivery next month), we have upgraded our revenue forecasts +45% to £13.3m in FY24e (from £9.2m), and +22% to £18.5m in FY25e (from £15.1m), in-line with management commentary. These are driven by the earlier than anticipated US launch, notably with increased milestones in both years. We caveat that forecasting revenues remains challenging given unpredictable launch dynamics (channel fill and stocking effects) and limited disclosure from partners (including variable milestone elements and undisclosed deal terms).
- More launches on the horizon** Eroxon is now available in over ten countries, with further launches planned for Europe and RoW. Post-period, M8 Pharmaceuticals confirmed the first Latin America launch in Mexico. Futura continues to evaluate partnering opportunities in China and South-East Asia, with regulatory experience and consumer marketing credentials both important given regional complexities.
- Insights from first launches will be key for targeting optimal audiences** Real-world evidence from four "home-user" studies has confirmed Eroxon's benefit is consistent with clinical trial data. This, together with market research insights, are helping to refine product positioning in order to optimally target an audience that is most likely to benefit from Eroxon, which should drive future reorder rates.
- Valuation updated to £392m or 130p/share** Our NPV-based valuation has been updated following H124 results, and the imminent confirmed US launch. These lead to an increased valuation of £392m (from £371m) or 130p/share. The US remains the main component of our valuation, worth more than EU and RoW combined.

| | |
|------------------|------------|
| Price | 38.00p |
| Market Cap | £108.1m |
| Enterprise Value | £104.1m |
| Shares in issue | 301.9m |
| 12 month range | 23.3-53.0p |
| Free float | 61.4% |
| Primary exchange | AIM |
| Other exchanges | N/A |
| Sector | Healthcare |
| Company Code | FUM |

Corporate client Yes



Company description

Futura Medical is the developer of innovative sexual health products; its core strength lies in its research, development, and commercialisation of topically delivered gel formulations. Lead product Eroxon (MED3000) is approved as an OTC product for ED (erectile dysfunction) in Europe and the US.

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Futura Medical: Commercial transition complete

Futura Medical has delivered all the critical elements to position Eroxon, a topical gel treatment for erectile dysfunction (ED), for successful launches and uptake in the key EU and US markets. There are already encouraging reordering signs from first EU launches, and these experiences have helped fine-tune the positioning for roll-outs across other major markets. Launches by partners across other geographies will similarly tailor promotional activities to local market needs. Exciting as these are, the biggest commercial opportunity lies in the US, where launch is imminent by partner Haleon, the renowned consumer health specialist. Commercial success in the US or EU could be transformational, with the upcoming US launch ensuring Futura's sustainable profitability. Our valuation is £392m (130p/share).




Eroxon's unique features should lead to strong uptake in the significant ED market

Eroxon is a topical gel for ED (erectile dysfunction). It has demonstrated clinically relevant and consistent benefits across a broad spectrum of ED sufferers. In contrast to mainstay prescription ED treatments, Eroxon has a rapid onset of action, few side effects, no drug interactions, and most notably is available over-the-counter (OTC), ie without a prescription. Given these unique features, Eroxon should be an attractive treatment option for a wide range of ED patients. Commercialisation has been entrusted to consumer health specialists, with the notable partners being Cooper Consumer Health for Europe and Haleon (formerly part of GSK) for the US.

Forecasting revenues and tracking the launch remain particularly challenging

As we have previously highlighted, tracking Eroxon's launch and forecasting near-term revenues is, and remains, particularly challenging. This is owing to limited disclosure from partners, coupled with differing and unknown precise deal terms in various regions. An overview of the structure of the typical partnering deals that Futura has in place is shown in Exhibit 1; the US deal with Haleon is an IP licence model, whereas the deal with Cooper is a direct sales model. Whilst royalty income should correlate fairly directly with in-market sales, other components of Futura's revenues, such as non-recurring and unpredictable milestone income or manufacturing fees, will not.

Exhibit 1: Futura typical partnering and operating models

| | IP LICENCE MODEL | DIRECT SALES MODEL |
|--|--|--|
|  Manufacture | Licensee | Futura |
|  Regulatory and Quality | Licensee | Futura and Licensee |
|  Sales and Marketing | Licensee | Licensee |
| We generate revenue through: | <ul style="list-style-type: none"> ▶ Royalty payments ▶ Milestone payments | <ul style="list-style-type: none"> ▶ Direct sales ▶ Milestone payments |

Source: Futura Medical

Hard to track reorder rates...

As Eroxon is available OTC and therefore without the ability to track prescription data, there is limited quantitative data in order to track repeat use. As an OTC product, consumers are able to purchase Eroxon from a variety of sources and are effectively anonymous. The only real data that could identify repeat purchases would be via loyalty card schemes; however, not all consumers (and particularly men) will be part of these schemes and there is also no guarantee that a repeat user will purchase Eroxon via the same source each time. Nevertheless, despite these limitations, initial (albeit limited) reorder data from the UK suggest a repurchase rate of 15-20%. This is hard to contextualise, although management commented that the repurchase rate for a consumer healthcare product would typically be within the 20-40% range and the repurchase rate for Viagra and Cialis is around 30%. We also note two observations:

- Initial pent-up demand may have included ED sufferers for whom existing PDE5is do not work, and thus are potentially less likely to benefit from Eroxon, and may therefore be unlikely to repurchase; and
- The UK market is unique (in terms of regions where Eroxon has been launched) as some PDE5is are already available OTC, and thus this increases competition (compared to markets where these are only available with a prescription), which may also impact the reorder rate.

...but initial signs are encouraging in the context of the UK market and launch

Hence, we believe the initial UK repurchase rate is encouraging at this stage, and should improve as marketing is refined to target users that are more likely to benefit. Market research and learnings that are being implemented in order to target Eroxon more effectively are summarised in Exhibit 2.

Exhibit 2: Market research observations

- **Clinical studies show improved satisfaction of around 30% when used as part of foreplay yet only 1 in 2 men are using Eroxon this way**
- **Satisfaction levels are higher in men less than 60 years old and especially in the 30 to 45 age group**
- **Satisfaction levels are also higher between couples rather than in single men using Eroxon on a date or solo use**
- **1 in 5 men are unnecessarily using Eroxon to pre-empt activity, rather than using the treatment spontaneously or indulging in foreplay**
- **Not using the entire contents of the single dose Eroxon tube**
- **Side effect profile remains extremely low with a reported incidence rate of less than one in 14,000 packs and all side effects non-serious**

Source: Adapted from Futura Medical

Haleon appears to be incorporating these learnings in their materials

With Haleon preparing for imminent US launch, an [Eroxon](#) product website is now available and contains imagery depicting younger males and couples. This seems to suggest that these learnings are being incorporated into Haleon's marketing and product positioning.

Launches continue ex-US, with more to come

Outside of the US, Eroxon has been launched in ten countries, including France, Italy and Spain with Cooper Consumer Health. In the Middle East, Labatec has launched in two markets. In Central and Latin America, a digital launch was started in Mexico in mid-August with a store roll-out to follow.

Partnering interest is high in China and Asia, but complicated by regulatory requirements

In China and South-East Asia, interest levels from potential partners remain high. The key criteria for securing any deals include finding a partner with appropriate consumer marketing credentials and market reach, plus an understanding of what is likely to be complex and nuanced regulatory processes as these regions may require additional trials to be completed. This is now the case in South Korea where regulators have outlined that Eroxon will be classified as a drug, requiring further clinical studies. Because of this regulatory requirement, this market is not currently being progressed and the deal with Menarini for South Korea has consequently been terminated.

Update on initial proof-of-concept work for Eroxon range extensions expected by YE24

Beyond these Eroxon launches, part of Futura's strategy is to broaden the product range and Futura is also exploring potential range extensions (which is of interest to existing commercial partners). In the near-term, this includes completing initial proof-of-concept studies whilst remaining mindful of costs. We expect an update on these before the end of this year.

Valuation and Financials

Updated NPV valuation of £392m, or 130p per share

We value Futura Medical using a sum-of-the-parts NPV (net present value), including various assumptions for Eroxon in the main geographies (US, Europe, and Other Regions). These are summed and netted against core costs and cash. Our NPV has been updated to reflect the earlier than anticipated US launch, plus we have incorporated the last reported cash position and rolled forwards in time. These lead to a Futura Medical valuation of £392m, equivalent to 130p per share (Exhibit 3). For more on our valuation methodology see our [April 2024 Outlook](#).

Exhibit 3: Futura Medical NPV valuation

| | Year of Launch | Partner | Peak Sales (\$m) | NPV (\$m) | NPV (£m) | NPV/ share (p) |
|------------------------|----------------|---------|------------------|--------------|--------------|----------------|
| Eroxon (US) | 2024 | Haleon | 356 | 270.7 | 225.6 | 74.7 |
| Eroxon (Europe) | Launched | Cooper | 132 | 153.9 | 128.2 | 42.5 |
| Eroxon (Other Regions) | Launched | Various | 102 | 66.8 | 55.7 | 18.4 |
| Non-R&D OpEx | | | | (25.3) | (21.1) | (7.0) |
| Net cash | | | | 4.7 | 3.9 | 1.3 |
| Total | | | | 470.8 | 392.3 | 130.0 |

Source: Trinity Delta Note: Assumptions include a 10% discount rate; a 1.2 \$/£ FX rate, and 10% tax rate from 2027 with the benefit of the UK patent box

Revenues upgraded on earlier US launch

Following H124 interim results (discussed in our [September 2024 Lighthouse](#)) we have increased our FY24e revenue forecast to £13.3m (from £9.2m), which reflects inclusion of a \$5m/£4m milestone from Haleon on US launch (which we previously included in FY25), initial first recurring royalties on US sales of £0.5m, whilst slightly lowering our EU/RoW revenue forecasts to £5.5m (from £6m), given unpredictable launch dynamics and stocking. Our updated FY25e revenue forecast is £18.5m (from £15.1m) which comprises slightly lower product sales and royalties of £10.5m (from £11.1m), albeit the mix has shifted with higher US royalties, whilst electing to conservatively keep EU/RoW product revenues broadly flat vs FY24e. Our FY25e forecast also now includes two milestones of c \$5m/£4m. A breakdown of our revenue forecasts are shown in Exhibit 4.

Exhibit 4: Revenue forecast breakdown

| £m | 2023 | 2024e | 2025e |
|---------------------------|------------|-------------|-------------|
| Product sales & royalties | 3.1 | 6.0 | 10.5 |
| Milestones | 0.0 | 7.2 | 8.0 |
| Total revenues | 3.1 | 13.3 | 18.5 |

Source: Trinity Delta

With only minor adjustments to core operating expenses (R&D and G&A), the higher revenues drive a swing to a net profit in FY24e to £0.5m, with FY25e increased to £7.1m (Exhibit 5). Our updated forecasts are in Exhibit 6.

Exhibit 5: Summary of main changes to forecasts

| £m | 2023A | | 2024E | | 2025E | | |
|-------------|-------|-------|-------|----------|-------|------|----------|
| | | Old | New | % Change | Old | New | % Change |
| Revenues | 3.1 | 9.2 | 13.3 | +45% | 15.1 | 18.5 | +22% |
| Adj. EBITDA | (4.1) | (1.1) | 2.7 | N/A | 4.0 | 8.6 | +115% |
| Net Income | (6.5) | (3.1) | 0.5 | N/A | 2.5 | 7.1 | +186% |

Source: Trinity Delta

Exhibit 6: Summary of financials

| Year-end: December 31 | £'000s | 2021 | 2022 | 2023 | 2024E | 2025E |
|-------------------------------------|--------|----------------|----------------|----------------|----------------|----------------|
| INCOME STATEMENT | | | | | | |
| Revenues | | 0 | 0 | 3,101 | 13,259 | 18,452 |
| Cost of goods sold | | 0 | 0 | (1,327) | (3,527) | (3,271) |
| Gross Profit | | 0 | 0 | 1,774 | 9,732 | 15,181 |
| R&D expenses | | (3,774) | (4,131) | (2,046) | (2,087) | (1,878) |
| General and administrative expenses | | (2,092) | (2,740) | (6,692) | (7,693) | (6,681) |
| o/w stock options | | (182) | (672) | (2,720) | (2,503) | (1,552) |
| Other revenue/expenses | | 0 | 0 | 0 | 0 | 0 |
| Operating Profit | | (5,866) | (6,871) | (6,964) | (48) | 6,621 |
| EBITDA | | (5,847) | (6,847) | (6,833) | 225 | 7,080 |
| Adj. EBITDA | | (5,665) | (6,175) | (4,113) | 2,728 | 8,631 |
| Interest expense | | 0 | 0 | 72 | 154 | 93 |
| Profit Before Taxes | | (5,866) | (6,871) | (6,892) | 106 | 6,714 |
| Adj. PBT | | (5,684) | (6,200) | (4,172) | 2,609 | 8,265 |
| Current tax income | | 909 | 1,025 | 379 | 409 | 417 |
| Net Income | | (4,958) | (5,846) | (6,513) | 515 | 7,131 |
| EPS (p) | | (1.83) | (2.03) | (2.21) | 0.17 | 2.36 |
| Adj. EPS (p) | | (1.76) | (1.80) | (1.29) | 1.00 | 2.88 |
| DPS (p) | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Average no. of shares (m) | | 271.0 | 287.5 | 294.9 | 301.6 | 301.9 |
| <i>Gross margin</i> | | <i>N/A</i> | <i>N/A</i> | <i>57%</i> | <i>73%</i> | <i>82%</i> |
| BALANCE SHEET | | | | | | |
| Current assets | | 11,360 | 5,315 | 9,332 | 6,879 | 15,097 |
| Cash and cash equivalents | | 10,373 | 4,026 | 7,714 | 4,626 | 6,212 |
| Accounts receivable | | 79 | 266 | 1,240 | 1,653 | 8,291 |
| Inventories | | 0 | 0 | 0 | 193 | 179 |
| Other current assets | | 908 | 1,023 | 377 | 407 | 415 |
| Non-current assets | | 443 | 1,158 | 2,485 | 4,169 | 4,493 |
| Property, plant & equipment | | 443 | 1,158 | 2,485 | 4,169 | 4,493 |
| Other non-current assets | | 0 | 0 | 0 | 0 | 0 |
| Current liabilities | | (2,078) | (1,753) | (6,340) | (2,554) | (2,413) |
| Short-term debt | | 0 | 0 | 0 | 0 | 0 |
| Accounts payable | | (2,078) | (1,753) | (6,340) | (2,554) | (2,413) |
| Other current liabilities | | 0 | 0 | 0 | 0 | 0 |
| Non-current liabilities | | 0 | 0 | 0 | 0 | 0 |
| Long-term debt | | 0 | 0 | 0 | 0 | 0 |
| Other non-current liabilities | | 0 | 0 | 0 | 0 | 0 |
| Equity | | 9,725 | 4,720 | 5,477 | 8,495 | 17,177 |
| Share capital | | 66,952 | 67,122 | 71,672 | 71,672 | 71,672 |
| Other | | (57,228) | (62,402) | (66,195) | (63,177) | (54,494) |
| CASH FLOW STATEMENTS | | | | | | |
| Operating cash flow | | (3,873) | (5,775) | 570 | (1,130) | 2,369 |
| Profit before tax | | (5,866) | (6,871) | (6,892) | 106 | 6,714 |
| Non-cash adjustments | | 202 | 697 | 2,828 | 2,622 | 1,918 |
| Change in working capital | | 1,272 | (512) | 3,612 | (4,391) | (6,764) |
| Interest paid | | 0 | 0 | 0 | 154 | 93 |
| Taxes paid | | 519 | 910 | 1,023 | 379 | 409 |
| Investing cash flow | | (420) | (741) | (1,434) | (1,958) | (783) |
| CAPEX on tangible assets | | (420) | (741) | (1,506) | (1,958) | (783) |
| Other investing cash flows | | 0 | 0 | 72 | 0 | 0 |
| Financing cash flow | | 13,647 | 170 | 4,550 | 0 | 0 |
| Proceeds from equity | | 13,647 | 170 | 4,550 | 0 | 0 |
| Increase in loans | | 0 | 0 | 0 | 0 | 0 |
| Other financing cash flow | | 0 | 0 | 0 | 0 | 0 |
| Net increase in cash | | 9,354 | (6,346) | 3,686 | (3,088) | 1,586 |
| Exchange rate effects | | 0 | 0 | 2 | 0 | 0 |
| Cash at start of year | | 1,019 | 10,373 | 4,026 | 7,714 | 4,626 |
| Cash at end of year | | 10,373 | 4,026 | 7,714 | 4,626 | 6,212 |
| Net cash at end of year | | 10,373 | 4,026 | 7,714 | 4,626 | 6,212 |

Source: Company, Trinity Delta Note: Adjusted numbers exclude share-based payments and exceptionals

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