



CONCENTRATED + HEALTHCARE + VALUE

VALUEx Vail 2019

Biospecifics (BSTC)

Rating: BUY

Price Target: \$90 (+60%)

Presented by:

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Headquarters: Lynbrook, NY
Year Incorporated: 1957
Ticker: BSTC
CEO: Ron Law

Market Cap: \$415 million
Cash at 1Q19: \$88 million
Debt at 1Q19: \$0
Enterprise Value: \$327 million



Price	\$ 56.50					
	2017	2018	2019e	2020e	2021e	2022e
Sales	27	33	38	44	52	61
y/y growth		20%	15%	16%	18%	17%
EBIT	18	23	27	33	40	48
margin %	64%	71%	71%	75%	77%	80%
EPS	1.55	2.73	3.14	3.82	4.63	5.60
PE x	36x	21x	18x	15x	12x	10x
FCF	13	18	26	30	36	42
Cash	65	82	105	136	172	215
ROIC	140%	121%	138%	163%	186%	206%
ROE	17%	21%	19%	18%	18%	18%

2015 vs. 2019

The Stock is Materially Cheaper Today

	2015	2019e
Price	\$56.50	\$56.50
Shares Outstanding	7.27	7.31
Market Cap	\$ 411	\$ 413
YE Cash	37	105
Enterprise Value	\$ 374	\$ 309
Sales	23	38
Change %		67%
EBIT Margin %	63.5%	71.2%
EPS	1.32	3.14
Change %		138%
PE x	43x	18x
PE x (net of cash)	39x	13x
FCF	11	26
Change %		148%
FCF/EV	2.8%	8.5%

Indications: Dupuytren's contracture (DC), Peyronie's disease (PD)
 Approved: 2010 and 2013
 Marketed by: Endo Pharmaceuticals (ENDP)
 WAC Price: \$4,491
 Biospecifics receives a 12.5% royalty on net sales
 Composition of Matter Patent: July 2028

PD Prevalence Rate: 3-8% of men
 PD Diagnosis Rate: 2-3%
 PD Penetration: 14%
 DC Prevalence Rate: 3-6% among Caucasians
 DC Diagnosis Rate: 3%
 DC Penetration: 25-30%

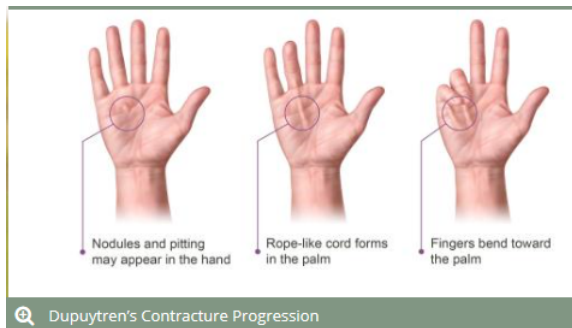
Dupuytren's contracture >

For adults with Dupuytren's contracture when a "cord" can be felt



Peyronie's disease >

For adult men who have a "plaque" that can be felt and a curve in their penis greater than 30 degrees at the start of treatment

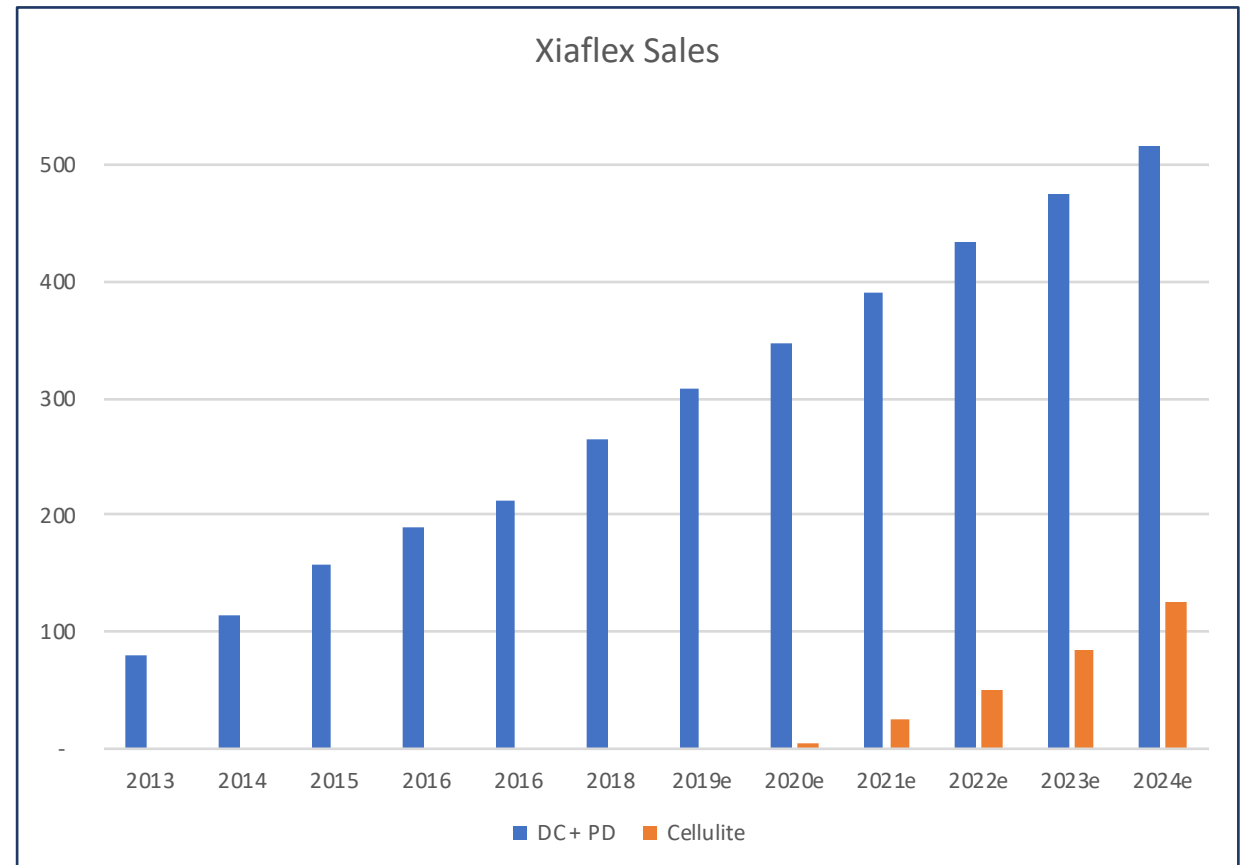


Pipeline in a Product (funded by Endo)
 Cellulite BLA filing: 2H19e
 BLA Approval expected: 2H20e
 New Formulation = New Patents



Indication		Preclinical	Phase 1	Phase 2	Phase 3	Marketed
Approved Indications						
Dupuytren's Contracture	 endo					
Peyronie's Disease	 endo					
Additional CCH Indications						
Cellulite	 endo					
Adhesive Capsulitis	 endo					
Human Lipoma	 endo					
Canine Lipoma	 endo					
Lateral Hip Fat	 endo					
Plantar Fibromatosis	 endo					
BioSpecifics Managed CCH Indications						
Uterine Fibroids						

Source: Endo International plc



Biospecifics Investment Case

Limited analyst coverage

- H.C. Wainwright & Co

Base business healthy and growing

- Organic revenue growth of mid-to-high teens in 2019e
- ROIC 100%+ and ROE ~20%
- Increasing free cash flow
- No capital required to fund growth

Strong balance sheet

- 1Q19 cash = 21% of market cap

The Cellulite opportunity is under-valued

- Implied peak sales of only \$11 million
- Cash-pay market argues for higher multiple

Thesis: Mis-Priced Optionality with Downside Protection

Mis-Priced Optionality:

DCF Value of DC and PD = \$49 per share

- 7.5% discount rate
- Zero terminal value beyond 2028

Market Implied Value for Cellulite = \$55 million

At 5x sales, Implied Peak Sales = \$11 million

Downside Protection:

Expected Cash at YE19 = 24% of market cap

Expected Cash at YE20 = 32% of market cap

\$4 million buyback authorized

DCF Value of Current Indications = \$49 (-15%)

	2017	2018	2019e	2020e	2021e	2022e	2023e	2024e	2025e	2026e	2027e	2028e
Sales	27	33	38	43	49	55	61	67	73	79	84	89
y/y growth		20%	15%	14%	13%	12%	11%	10%	9%	8%	7%	6%
EBIT	18	23	28	32	37	42	47	52	58	63	67	72
margin %	64%	71%	73%	74%	75%	76%	77%	78%	79%	80%	80%	80%
Other Income			2	2	3	4	4	5	5	6	6	7
Net Income	11	20	23	27	31	36	40	45	49	54	58	62
Discount Rate		8%										
Time			0.5	1.5	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5
PV of NI			11	24	26	28	29	30	31	31	31	31
Sum of CF	273											
Cash	88											
Equity Value	361											
S/O	7											
DCF Value	49											

Vanity is alive and well in the United States



Cellulite is present in 80-90% of post-pubertal women

Currently approved Cellulite therapies:



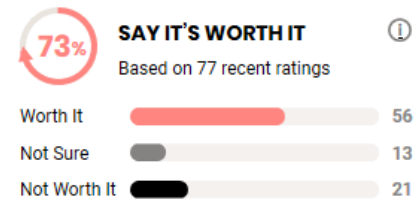
Costs from 246 RealSelf member reviews.

Average Cost **\$5,800**
Price Range \$3,000 - \$9,000



Costs from 233 RealSelf member reviews.

Average Cost **\$4,025**
Price Range \$2,700 - \$5,500



Source: www.realself.com



Xiaflex could be the first pharmacologic therapy approved for the treatment of cellulite.

The Aesthetics market increased 4% to \$16.5 billion in 2018

	2018	
	# of	Avg
Surgical Procedures	Procedures	Surgeon Fee
Breast Augmentation	313,735	\$ 3,824
Liposuction	258,558	\$ 3,518
Eyelid Surgery	206,529	\$ 3,156
Facelift	121,531	\$ 7,655
Tummy Tuck	130,081	\$ 6,253
Breast Reduction	43,591	\$ 5,680
Nose Reshaping	213,780	\$ 5,350
Minimally Invasive Procedures		
Wrinkle Treatment Injections	7,437,378	\$ 397
Chemical Peel	1,384,327	\$ 669
Laser Hair Removal	1,077,490	\$ 285
Microdermabrasion	709,413	\$ 131
Total Market Value in 2018	\$ 16,500,000,000	
Source: American Society of Plastic Surgeons		

Base Case Model Assumptions	
Price per Vial	\$ 1,000
Vials per Treatment	3.0
Cost of Therapy	\$ 3,000
Gross to Net	20.0%
Net Price to Endo	\$ 2,400
2024e Sales	\$ 125,000,000
# of Patients	52,083
Blue Sky Case Model Assumptions	
Price per Vial	\$ 1,000
Vials per Treatment	3.0
Cost of Therapy	\$ 3,000
Gross to Net	20.0%
Net Price to Endo	\$ 2,400.0
2024e Sales	\$ 250,000,000
# of Patients	104,167

Physician Feedback

Our KOL believes that a product that produces a noticeable improvement in appearance of cellulite, and is economical and has a short recovery time would be “wildly popular”.

- Mizuho Securities report August 14, 2018

When asked about Endo’s recently disclosed phase 3 results for cellulite, our panelists clearly illustrated that they believe the market is truly huge.

- Cowen collaborative insights report March 18, 2019

Cellulite is a massive problem – very common. It looks like it works in severe cellulite.

- Dr Jeffrey Dover, MD on a Jefferies conference call May 29, 2019

Only 40% of survey docs (10/25) were familiar enough with CCH to have an impression of the potential treatment. Of those, half believe that CCH has significant potential for the treatment of cellulite, while the other half believes it has modest potential (these were the only possible responses).

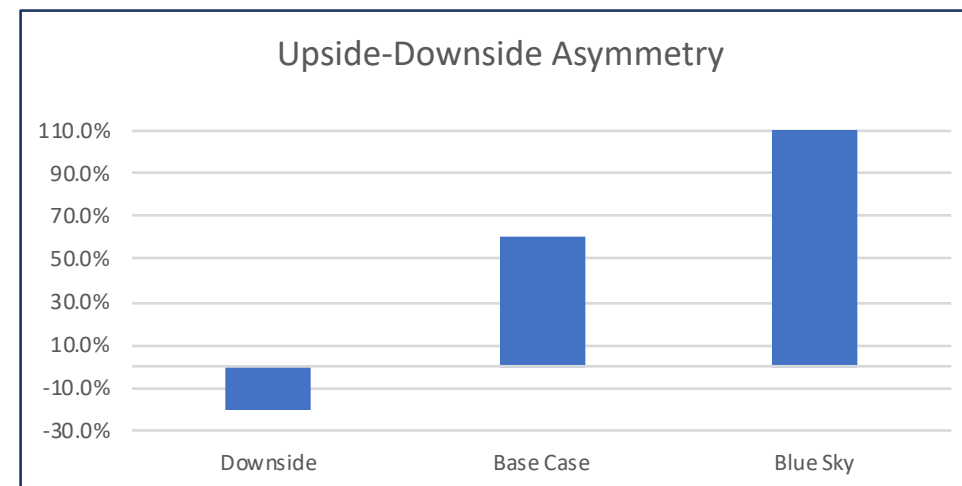
- Suntrust Robinson Humphrey Aesthetics Survey report June 11, 2019

Key Risks

- **Marketing Partner Risk** – Endo is heavily leveraged at 5x EBITDA (with liabilities) and is vulnerable as a going concern.
- **Approval Risk** – FDA has discretion on BLA acceptance and approval.
- **Commercial Risk** – Endo is not a traditional aesthetics company. How durable are the clinical results?
- **Patent (and Deal) Risk** – The current marketing deal with Endo ends when the patent expires in 2028.

Buy share of Biospecifics for an asymmetric return profile

- 15% **downside** if Cellulite is not approved (PT \$49)
- 60% upside in **base case** if Cellulite sales reach \$125 million in 2024 (PT \$90)
- 100%+ upside in **blue sky case** if Cellulite sales reach \$250 million in 2024 (PT \$130)





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