Siena Market Line
2nd week of March 2015

Anika Therapeutics Inc.

NASDAQ:ANIK

Analyst: Laura Pladys
Sector: Healthcare

BUY

Price Target: $49.28

Key Statistics as of 3/9/2015

Market Price:	$39.49
Industry:	Healthcare Equipment and Supplies
Market Cap:	$543.62 M
52-Week Range:	$34.16-$51.40
Beta:	1.34

Thesis Points:

- Two orthobiologics products leading ANIK to gain US market share & pushing the company as the market leader
- Regenerative medicine: a research area in the correct research time frame giving ANIK a competitive advantage
- Current financials showing signs of undervaluation

Company Description:

Anika Therapeutics, Inc., together with its subsidiaries, develops, manufactures, and commercializes therapeutic products for tissue protection, healing, and repair in the United States, Europe, and internationally. The company's products are based on hyaluronic acid (HA), a naturally occurring biocompatible polymer found in the body. Its orthobiologics products comprise ORTHOVISC, ORTHOVISC mini, and MONOVISC for the treatment of osteoarthritis of the knee and joints; Hyalofast, a biodegradable support for human bone marrow mesenchymal stem cells that is used in connection with soft tissue regeneration; Hyalonect, a woven gauze used as a graft wrap; Hyaloss used to mix blood/bone grafts to form a paste for bone regeneration; and Hyaloglide, an ACP gel used in tenolysis treatment. The company's dermal products include wound care products that comprise Hyalomatrix and Hyalofill, for treatment of complex wounds, such as burns and ulcers; Hyalograft 3D and Laserskin scaffolds for use in connection with the regeneration of skin; and ELEVESS, an aesthetic dermatology product. Its surgical products comprise Hyalobarrier, a post-operative adhesion barrier for use in the abdomino-pelvic area; INCERT, a HA product for the prevention of spinal post-surgical adhesions; Merogel, a woven fleece nasal packin; and Merogel Injectable, a viscous hydrogel. The company's ophthalmic products include AMVISC, AMVISC Plus, STAARVISC-II, Optivisc, AnikaVisc, and AnikaVisc Plus that are injectable HA products used as viscoelastic agents in ophthalmic surgical procedures, including cataract extraction and intraocular lens implantation; and veterinary product comprise HYVISC, an injectable HA product used for the treatment of joint dysfunction in horses. Anika Therapeutics, Inc. markets its products through a network of distributors. The company was founded in 1983 and is headquartered in Bedford, Massachusetts.

Thesis

ANIK developes business strategies by understanding the trends and developments driving the medical devices pipeline. The company timing in product development is even more important for ANIK as 79% of its product revenue comes from only five customers. ANIK does not directly distribute its products but uses distributors to reach its end-buyers. Thanks to its regenerative medicine focus and its position as a market leader in viscosupplementation, ANIK reduces the risk to be highly harmed by one of the five customers not generating enough revenues. Moreover, the company forecasts to keep being dependent on these five players.
ANIK's pipeline is the company's most important asset. Monovisc and in a near future Cingal are products adding value to the company that the market underestimate. In addition, the company strong focus in regenerative medicine, if correctly timed, will push forward ANIK's market share and will create a real opportunity for the complete future line of products in a sort of monopoly. Also, the company's current financial information shows signs of undervaluation in a very competitive market.

Management

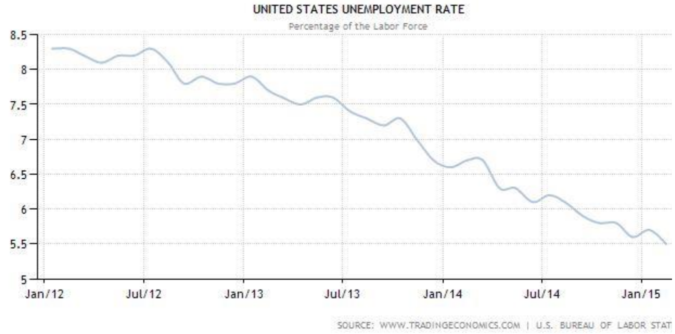
Anika's management team is composed of very talented people. ANIK CEO Dr. Charles Sherwood has joined the company in April 1998. He is the CEO of the company since March 2002 and its president since June 2001. He previously served as COO, Vice President of R&D, and Vice President of Process Development and Engineering before being a consultant for the company. Prior to that, he operated in various medical devices companies as Vice President of R&D. He has a Ph.D. in Polymer Science and Engineering as well as a Certificate in Management. Anika's leader is well experimented in the industry the company operates in. Sylvia Cheung holds the position of Anika's CFO, Secretary, and Treasurer since 2013. She joined the company in 2005 as Controller and in 2010 served as General Manager for the acquired company Anika Srl in Italy. She has had previous experiences in audit with a focus in technological companies. Last but not least, Dr. Glenn Larsen joined the company as Director of the Board. Dr. Larsen is a science person with an impressive technical expertise. He had previous experiences dealing with HA and is very skilled in regenerative medicine. The addition of Dr. Larsen as a director is a great asset that should enable the company to develop its pipeline.

Competition

Anika competes with large pharmaceuticals firms and specialized medical products companies. Anika's rivalry arises as well from academic institutions, governmental agencies and other research organizations. Competition emerges from every line of products. Rivalry can result from several factors but the ones Anika faces are the followings: products efficacy, safety, availability of supply, timing in addition to the opportunity of FDA approvals, reimbursement coverage, and patent protection in addition to products prices. Anika's ability to compete in its HA product development and commercialization may be due to technological advances, the capacity to obtain FDA and foreign regulatory approvals prior to their competitors, their ability to recruit skilled employees, and the capital they are willing to invest for product research and development.

Industry Overview – Healthcare Equipment and Supplies

Equipment and supplies represent a significant portion of the healthcare sector. This industry deals with manufacturers of health care equipment and medical devices used in patients' medical treatment. The Health Care industry primary goal is to help health care facilities improve their ability to provide patients treatment more accurately and more efficiently. A few key drivers for this industry are the following. First of all, the population is aging; baby-boomers are in their 50-60 years old. Medical devices are becoming more and more needed. In addition, over half of Americans get health insurance coverage by their employers. As of February 28, 2015, the US unemployment rate was of 5.5% (US Department of Labor), the lowest it has reached in the past few years (see chart below).



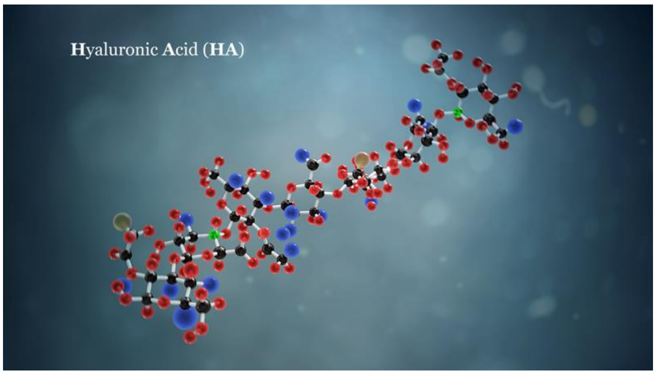
With a low unemployment rate, there is more spending on health services and products than in recession when people lose their jobs and therefore are not covered anymore.

The Affordable Care Act put in place by the President of the United States Barack Obama is a key factor. It may impact the industry the most. Indeed, the reform aims to have every single American citizen covered by a healthcare insurance, increasing the number of patients in the medical sector. At the meantime, the equipment industry would be taxed 2.3% on all of the sales of equipment. Many analysts believe it could hurt the industry. The reform would cause the customer base of the industry to increase, and therefore the need to have more equipment to be able to take care of all the patients.

The healthcare equipment and supplies industry has bright days ahead since there will always be a need for medical devices, whether sellers get taxed or not.

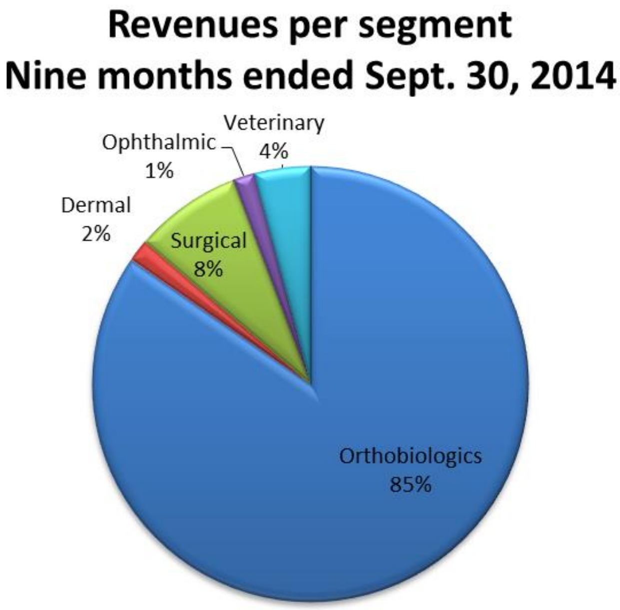
Products Proposed

Anika Pharmaceuticals manufactures as well as distributes a diversified pipeline of hyaluronic acid (may also be referred to as hyaluronan or sodium hyaluronate) based products used in a wide range of therapeutic applications. Anika has acted as a leading provider of HA based therapeutics for more than 20 years. The component is present both in the skin and the cartilage of human beings. In the skin, it acts as a tissue repairing agent whereas in the human cartilage it has a lubricant action. It is a polymer that is repeatedly produced within the body and is degraded naturally by enzymes. A polymer is several individual Ha units linked together on the same chain (see below).



The average 150-pound person contains approximately 15 grams of HA in his/her body which 5 grams of these degraded and re-synthesized every day. The natural aging process diminishes these 15 grams. With an aging population as mentioned above, the need for ANIK's products is increasing. ANIK's goal is to help people restore their skin appearance naturally.

The company pipeline includes orthobiologics, dermal and surgical products as well as other HA solutions. ANIK's orthobiologics have been used in more than 7 million treatments worldwide and proved efficacy and a reduction in side effects. The dermal line seeks to enhance natural beauty and provide a broad range of therapeutic solutions for wound management. ANIK's surgical products primarily deal with anti-adhesion products to prevent or reduce the risk of post-surgical adhesions. The products create a barrier between the tissue and the organs during the healing process. Finally, ANIK naturally inspired therapeutics includes products in areas such as ophthalmic, dental and veterinary. Orthobiologics remains the most profitable segment for ANIK:



Monovisc to Cingal: comfort product becoming market leaders

Monovisc has first been launched in 2008 in European countries and Turkey and in 2009 in Canada. Monovisc is a single-injection treatment for osteoarthritis pain of the knee that comes with an instruction so that patients can inject it themselves. It has the highest concentration of HA of any visco-product on the market, nearly 3 times more than any other products.

In 2010, Genzyme Corp has launched a patent infringement lawsuit against Anika Therapeutics to stop sales in the US. Genzyme Corp claimed that ANIK infringed two of its patents and that sales in the US would do the same. The two patents are patent 724 and patent 351, patents covering a biocompatible gel and the implementation of this gel in a human body respectively. The gel aspect of the products is made possible thanks to cross-linked polymers that have the possibility to remain stable in the body for a longer period of time, therefore more inclined to produce the desired effect.

4 years later, in February 2014, ANIK received the FDA approval for the sales of Monovisc in the US while the patent lawsuit was still going on. On March 10, 2014, both companies filed a motion to dismiss the patent infringement and the motion got granted.

Monovisc is marketed by the US company Mitek Sports Medicine "Mitek" that also markets others of ANIK products such as Orthovisc through a licensing agreement. The U.S. approval and launch of Monovisc in April 2014 led to a record year for product revenue for ANIK. Indeed, Monovisc product revenue increased 258% from 2013 to 2014, primarily due to the successful launch of the product in the United States in addition to the product continued growth in international markets. Monovisc generated as well approximately $30 million of milestone and contract revenue. The company records revenue at the product shipment and earns royalties when the licensed company sells the product to their end-users. After 9 months on the market, Monovisc represents 2% of the US market share, the company expecting to reach 5% by the end of 2015. Monovisc is the market leader in the US in the multi-segment injection.

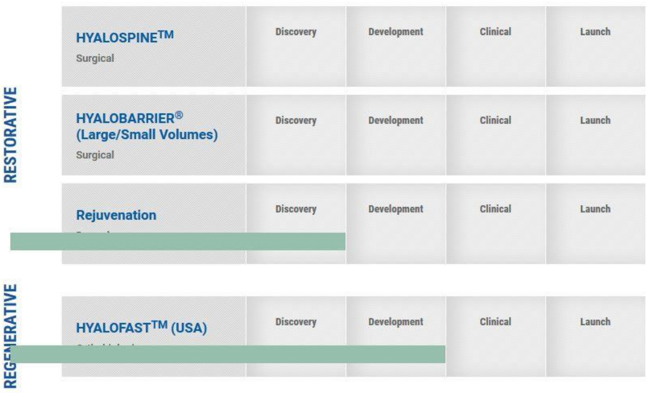
ANIK has filed a PreMarket Approval (PMA) application for the US market on February 13, 2015 as well as a CE Mark Approval for the European market at the end of 2014, both ahead of schedule. The company also forecasts to launch the product in other markets. This timing schedule will enable ANIK to be well positioned on the market compared to competitors when Cingal will be approved for launch. Cingal is a product gathering the efficacy of the company's current single injection (Monovisc) and early symptoms relief benefits of a commonly used steroid.

The market does not see the future performances of Cingal. Monovisc had been underestimated as well as sales of this product led the company to a record year in product revenue, an increase of 258% from 2013. A PMA legally requires 180 days to be approved but it usually takes longer. However, the company expects to launch Cingal in the next 18 months. Cingal is a better version of Monovisc with a pain reliever added. The increasing rate of obesity leads to more people suffering from their joint. In the US alone, 1/3 of the population is obese. Over the last three decades, the obesity rate worldwide has increased by 27.5%. Obese people carry more weight and it makes their joint more fragile. Moreover, as the population ages, painful joints become more and more common.

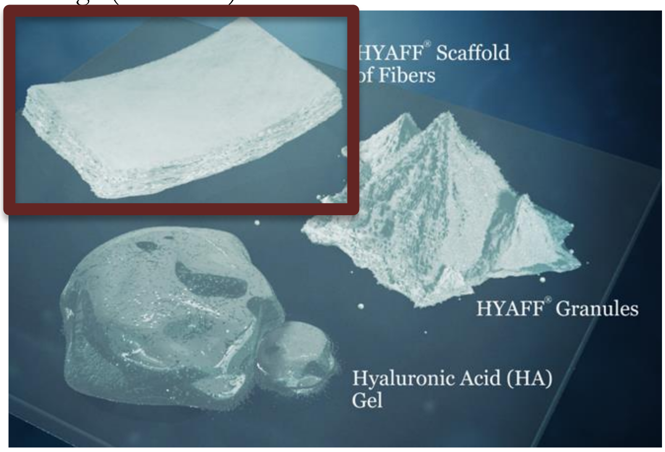
There is a real factor that the market seems to underestimate. People current condition and expected health increase the need of medication such as Monovisc and Cingal. Though these products are not vital, they are comfort products that people can afford and this should be reflected in the market, a market that seems to underestimate these factors.

Regenerative medicine

The company is extremely committed to increasing its pipeline year over year. With Research and Development steady around 8%, the company is able to develop new products without having to increase its R&D. As of the beginning of March 2015, the company had early product advances in restorative and regenerative medicine. As shown on the graph below, the company is in the discovery phase of a rejuvenation process and in the development phase of their product-to-be-launched Hyalofast (in the US only).



Hyalofast is a non-woven 2*2 centimeters 3D support, entirely biodegradable, composed of HYAFF – a benzyl ester of hyaluronic acid, key component of human cartilage (see below).



This "one-step regeneration" product is a real innovation to be made in the regenerative medicine. Made to be used in case of chondral and osteochondral lesions, HyaloFast is already CE marked in the European Union and marketed in Asia. HyaloFast enables patients to naturally regenerate hyaline-like cartilage with a minimally invasive surgery as well as a cost effective procedure. The internalization of the product as well as the commercialization in the United States has become the company's focus. The company received their FDA approval in September 2014. In addition to HyaloFast, ANIK is focused on developing new patent applications based on the HYATT technology. In 2014, the company received 5 key patent approvals that could position the company as the market leader in different segments. Besides, the addition of Dr. Larsen as Director enhanced the focus of the company in regenerative medicine.

As said earlier, HyaloFast is present internationally but not domestically. Market players in regenerative medicine are not numerous and products such as HyaloFast have not completely entered the market yet. By launching the product in the United States when receiving the FDA approval, ANIK will have room to gain market share. This revolutionary procedure should especially target athlete since knees and ankles injuries are frequent. HyaloFast does not require invasive and expensive procedures and enables the body to naturally correct the injury. Recently, the company had been more rapid than usual dealing with its administrative procedures; hence, HyaloFast could enter the market earlier than expected creating surprise and a jump in the market price.

Financials & Valuation

Q1 2014 report recorded an impressive start of 2014. ANIK's total revenue increased 41% from the prior year, reaching $105.6 million. This increase is mainly explained by the record increase of 258% in the Monovisc product revenue thanks to the product launch in the US and its expansion internationally. Product revenue was up 5% from the prior year to $75.5 million, primarily driven also by Monovisc. Their operating income increased 88% to $61.4 million and the company's operating margin increased from 43% to 58.2%, well above the industry average of -1.84k%. The company's net income increased 86% from the prior year to reach $38.3 million. Gross profit is now representing 80.2% of revenue, an increase of 10.5% from the 2013 69.7%. Globally, the company improved its profitability from 2013 to 2014.

The company recorded $106.9 million in cash, double the amount of cash and cash equivalents the company recorded last year. It is also the first time since inception that the company records revenue over $100 million. This is due to the company's strong cash from operations, including the $29.7 million milestone from Monovisc, as well as the exercise of the employee stock options. In addition to increasing significantly their cash and cash equivalents, the company is debt free.

Compared to its peers, ANIK shows sign of undervaluation. Indeed, the company's EV/Sales ratio of 4.38 times is 14 times lower than the industry average of 61.79 times. This measure of how much it would cost investors to buy the company's sales is an accurate valuation since it does take into consideration the debt the company has that needs to be paid back at some point. The lower the multiple, the more attractive is the company. Though the EV/Sales ratio slightly increases for ANIK to reach 5.46 times in the next fiscal year and that the industry average decreases by 50% to 32.50 times, ANIK would still be 6 times more attractive than its peers. Moreover, ANIK's Price/Sales ratio of 5.45 is 15 times lower than the peers' average of 80.69 times. Same scenario for the next fiscal year, while ANIK's P/Sales increases to 6.53 times and the peers' average decreases to 54.80 times, ANIK would still be 8 times more attractive to investors than it peers.

ANIK's P/E ratio of 27.87 times is 2 times lower than the industry average but the result is biased since only 5 out of the 15 companies considered for the industry average have an available P/E. Therefore, by comparing these five companies individually to Anika Pharmaceuticals, investors are willing to pay $27.87 per dollar of the company's earnings, higher than 4 of the available companies. Since the P/E ratio is higher than most of its direct competitors, it may suggest that investors are expecting the earnings growth to be higher than the industry in the future.

Conclusion

ANIK previous performances proved investors the company's competences. Its strong focus on orthopedic regenerative medicine and orthobiologics drive the company to a top leader position. The company phenomenal launch of Monovisc in the US suggests a real market advantage for its new product of the same product line: Cingal. The pending FDA approval of HyaloFast in the US, if approved in the right time frame, will give ANIK a significant competitive advantage that could be reflected in the stock price. The company's multiples compared to the industry average show signs of significant undervaluation in the near future as well as the fiscal year to come.

CENTER FOR GLOBAL FINANCIAL STUDIES

Anika Therapeutics Inc.	ANIK	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL
		Laura Pladys	$39.49	$47.12	$49.28	0%	24.8%	

General Info

Sector	Healthcare
Industry	Healthcare Equipment and Supplies
Last Guidance	Feb-25-2015
Next earnings date	NM

Peers

Peers	Market Cap.
STAAR Surgical Company	$279.08
IRIDEX Corporation	$101.37

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Sherwood, Charles	Chief Executive Officer, Presiden	$ 841,477.00	$ 1,629,575.00	$ -
Cheung, Sylvia	Chief Financial Officer, Principal	$ -	$ 631,160.00	$ -
Luppino, Frank	Chief Operating Officer	$ 442,398.00	$ 628,603.00	$ -
Ahn, Edward	Chief Technology & Strategy Off	$ -	$ -	$ -
Cyr, Steven	Vice President of Human Resou	$ -	$ -	$ -
Garrison, Constance	Vice President of Regulatory and	$ -	$ -	$ -

Market Data

Enterprise value	$436.72
Market Capitalization	$543.62
Daily volume	0.15
Shares outstanding	13.77
Diluted shares outstanding	15.27
% shares held by institutions	89.35%
% shares held by insiders	3.50%
Short interest	14.78%
Days to cover short interest	12.71
52 week high	$51.40
52-week low	$34.16
5y Beta	1.73
6-month volatility	37.18%

Current Capital Structure

Total debt/market cap	0.00%
Cost of Borrowing	0.00%
Interest Coverage	
Altman Z	24.48
Debt Rating	AAA
Levered Beta	1.34
WACC (based on market value weights)	10.30%

Historical Performance

	ANIK	Peers	Industry	All U.S. firms
Growth	-8.4%	3.2%	14.0%	6.0%
Retention Ratio	22.8%	-18.6%	95.3%	61.6%
ROIC	17.3%	-1.6%	13.6%	11.8%
EBITA Margin	23.2%	1.8%	15.5%	13.7%
Revenues/Invested capital	56.8%	96.6%	91.8%	202.3%
Excess Cash/Revenue	101.2%	25.4%	36.3%	18.5%
Unlevered Beta	1.34	1.50	0.95	0.95
TEV/REV	2.1x	2.4x	3.4x	2.4x
TEV/EBITDA	7.1x	86.6x	14.7x	11.3x
TEV/EBITA	8.1x	108.1x	16.3x	15.4x
TEV/UFCF	7.5x	55.2x	39.9x	26.8x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	1.2%	0.0%	18.6%
Last Quarter-1	10.5%	0.0%	21.2%
Last Quarter -2	-5.5%	0.0%	33.3%
Last Quarter -3	101.5%	0.0%	304.2%
Last Quarter -4	-13.0%	0.0%	7.1%

Non GAAP Adjustments

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	0%	N/A	N/A

Proforma Assumptions

Operating. Cash/Cash	0.0%
Unlevered Beta	1.34
Rev/Invested Capital	98.0%
Continuing Period Revenue Growth	3.2%
Long Term ROIC	11.8%
Invested Capital Growth	Equals to Maintenance
Justified TEV/REV	2.1x
Justified TEV/EBITDA	7.1x
Justified TEV/EBITA	8.1x
Justified TEV/UFCF	7.9x

Forecasted Profitability

Period	Rev. Growth	Adj. Op. Cost/Rev	Revenue	NOPLAT	Invested capital	UFCF
LTM	41%	33%	$105.59	$62.18	$108.00	$62.18
LTM+1Y	5%	40%	$111.27	$47.98	$120.24	$35.74
LTM+2Y	14%	43%	$126.95	$47.12	$125.79	$41.57
LTM+3Y	9%	45%	$137.95	$47.04	$130.00	$42.83
LTM+4Y	6%	46%	$146.85	$47.70	$133.76	$43.94
LTM+5Y	5%	47%	$154.51	$48.71	$137.31	$45.16
LTM+6Y	4%	47%	$161.44	$49.81	$142.35	$44.77
LTM+7Y	4%	48%	$167.95	$51.00	$146.53	$46.82
LTM+8Y	4%	49%	$174.20	$52.20	$150.50	$48.23
LTM+9Y	4%	49%	$180.31	$53.42	$154.18	$49.73

Valuation

	ROIC	WACC	EVA	Enterprise Value	Total Debt	Other claims	Equity	Adjusted Price
LTM	57.6%	10.3%	$51.05	$557.25	$0.00	-$106.91	$664.16	$48.62
LTM+1Y	44.4%	10.4%	$40.95	$557.19	$0.00	-$134.56	$691.75	$50.96
LTM+2Y	39.2%	10.5%	$36.12	$560.85	$0.00	-$173.40	$734.25	$54.02
LTM+3Y	37.4%	10.6%	$34.87	$568.88	$0.00	-$216.46	$785.35	$57.79
LTM+4Y	36.7%	10.7%	$34.80	$578.65	$0.00	-$262.41	$841.05	$61.89
LTM+5Y	36.4%	10.8%	$35.21	$589.28	$0.00	-$310.98	$900.25	$66.41
LTM+6Y	36.3%	10.9%	$36.16	$602.13	$0.00	-$360.39	$962.52	$70.77
LTM+7Y	35.8%	11.0%	$36.41	$614.18	$0.00	-$412.78	$1,026.96	$75.49
LTM+8Y	35.6%	11.1%	$36.94	$626.97	$0.00	-$467.37	$1,094.34	$80.41
LTM+9Y	35.5%	11.2%	$37.49	$639.90	$0.00	-$524.14	$1,164.05	$84.56

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Op. Costs Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Market Risk Premium	**6%**	**N/A**	**5%**	**7%**	**Triangular**
Long term Growth	**3%**	**N/A**	**-8%**	**14%**	**Triangular**
Terminal Value	**0**	**0.1**	**N/A**	**N/A**	**Normal**

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$48.62	$50.96
σ(ε)	$0.50	$0.56
3 σ(ε) adjusted price	$47.12	$49.28
Current Price	$39.49	
Analysts' median est.		$49.25