

# Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

Elizabeth Senko, Senior Analyst

312-265-9432

esenko@zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

## Innovus Pharmaceutical (INNV-OTC)

**INNV: 3Q18 preliminary revenues in-line with guidance but slightly below our estimate.**

We base our \$0.42/share value for INNV on a ten-year DCF with a WACC of 15%. Our WACC reflects current high financing costs as well as its relatively recent transition from start up to true operating status. On a P/S basis, INNV trades at 0.9x 2018E, while its peers trade anywhere from 1.2-29x 2018 sales, averaging 12.6x.

Current Price (11/05/18) \$0.11  
Valuation \$0.42

### OUTLOOK

On November 5, 2018, Innovus Pharmaceutical released preliminary 3Q18 revenues of \$7.0-7.1 million. This is largely flat to slightly down from 2Q18 revenues of \$7.4 million (including \$6.9 million from product sales).

We believe the slowdown in revenue growth reflects a smaller marketing investment in 3Q18 versus 2Q18 when marketing spend exceeded \$5.5 million, compared with \$3.3 million in the 1Q18.

INNV expects to release 3Q18 results on November 14.

### SUMMARY DATA

52-Week High \$0.21  
52-Week Low \$0.08  
One-Year Return (%) 22.2  
Beta 4.93  
Average Daily Volume (sh) 693,000

Shares Outstanding (mil) 207  
Market Capitalization (\$mil) \$23  
Short Interest Ratio (days) N/A  
Institutional Ownership (%) 0  
Insider Ownership (%) 16

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

5-Yr. Historical Growth Rates  
Sales (%) N/A  
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 High,  
Type of Stock N/A  
Industry Med-Drugs  
Zacks Rank in Industry N/A

### ZACKS ESTIMATES

#### Revenue

(in millions of \$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	2.2 A	2.0 A	2.2 A	2.4 A	8.8 A
2018	4.5 A	7.3 A	7.7 E	8.1 E	27.3 E
2019	8.9 E	9.7 E	10.4 E	10.2 E	38.7 E
2020					46.0 E

#### Earnings per share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	-\$0.02 A	-\$0.01 A	-\$0.01 A	-\$0.01 A	-\$0.04 A
2018	-\$0.01 A	-\$0.01 A	-\$0.01 E	-\$0.01 E	-\$0.04 A
2019	-\$0.01 A	-\$0.00 A	-\$0.00 E	-\$0.00 E	-\$0.01 E
2020					-\$0.01 E

Zacks Projected EPS Growth Rate - Next 5 Years % N/A

---

## INVESTMENT UPDATE – 3Q18 preliminary revenues in line with guidance

### The importance of consistent marketing campaigns

Innovus Pharmaceutical announced preliminary 3Q18 revenues of \$7.0 - \$7.1 million, up over 200% from \$2.2 million in the year earlier period, but down sequentially from \$7.3 million posted in 2Q18. We were looking for a slight sequential improvement to \$7.6 million (including \$7.3 million in product sales).

In our initiation report (October 2, 2018), we noted that the supplements business differs from traditional pharmaceutical business. The supplements market relies more on customer interest than disease incidence. There are few blockbuster perennial products in the supplements market – particularly at a brand level. It is a marketing-driven business, where demand can wax and wane. As a result, marketing investment in the supplements market is not as “sticky” as in OTC and prescription drugs.

Innovus spent \$5.5 million in 2Q18 largely on a 200k+ piece direct mail campaign. This represented a \$2 million sequential increase in marketing expense, which caught us off guard. So while INNV reported stronger than expected revenue results in 2Q18, much of the upside surprise was offset by the increased marketing spend.

We understand that INNV did not make the same level of marketing investment this quarter and instead will focus on smaller, more frequent campaigns to determine which programs are most effective and with which customers. We believe that this marketing strategy will provide more meaningful metrics and improve operating cash flow – both keys to improving investor confidence in the shares.

Innovus is scheduled to release 3Q18 results on November 14.

### Sensitivities and risks: Execution is key

It is still early to know how successful INNV’s multi-pronged marketing program, with its emphasis on growing subscription-based revenues to leverage marketing expenditures, will be. Early trends are quite favorable. In our view, INNV needs to show that it can maintain its strategic focus and meet clear, pressure-tested, operating targets in order to reduce financing costs and gain a stable, buy-and-hold investor base. Sensitivities in our financial and valuation outlook are largely execution dependent including:

- New product acquisitions/launches
- Addressable market and product lifecycle
- Subscription persistency
- Marketing spend
- Financing costs
- Regulatory changes

## FINANCIALS AND VALUATION

Our 2018 revenue estimate stays at \$27.6 million, slightly ahead of guidance at \$23 million. We expect the Company to make another marketing push in 4Q18 to target customers who include “improving health” in their new year’s resolutions and we anticipate that some of these revenues may book before year-end. Additionally, the Company appears close to releasing its GlucoGorx product/test strip bundle, which along with several other pipeline products may give the Company a 4Q revenue boost.

We value Innovus Pharmaceutical primarily using DCF techniques in large part because we expect much of the value in the Company will be unlocked over the next three to five years. The Company’s recent results suggest a strong recent track record of product introductions and healthy gross margins of 80%+.

A 10-year DCF with a WACC of 15% on our forecast compound average annual revenue growth of 71% from 2017-2020 fading to terminal growth of 2% and a terminal EBIT margin of 15% yields a value of \$0.42 per share.

## HISTORICAL STOCK PRICE



## DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research (“Zacks SCR”), a division of Zacks Investment Research (“ZIR”), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

### ANALYST DISCLOSURES

I, Elizabeth Senko, Senior Analyst, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

### INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.

Zacks SCR has received compensation from the issuer directly or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

### POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer’s business. SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover. SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

### ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.