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May 13, 2020

Halozyme Therapeutics (HALO)

$23.65 (As of 05/12/20)

Price Target (6-12 Months): **$28.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/11/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**1-Strong Buy**
	Zacks Style Scores:	VGM:F
	Value: C | Growth: F	Momentum: A

Summary

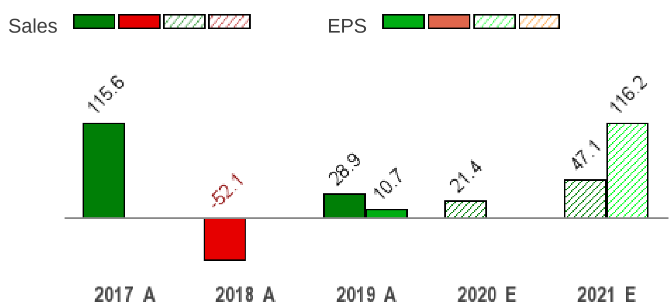
Halozyme missed estimates for sales and earnings in Q1. The company has promising collaboration deals related to its ENHANZE technology with several pharma companies. These deals generate the majority of revenues for the company. Blockbuster drugs like Herceptin and Rituxan use ENHANZE for subcutaneous administration, which boosts Halozyme's royalties. FDA's approval for subcutaneous formulation of J&J's Darzalex will likely boost royalties. Restructuring initiatives announced in 2019 are also encouraging. Halozyme's shares have outperformed the industry so far this year. However, the company's dependence on collaboration partners for revenues remains a concern. Failure and discontinuation of PEGPH20 development in 2019 was a major setback.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$25.68 - $12.71**
20 Day Average Volume (sh)	**1,567,697**
Market Cap	**$3.2 B**
YTD Price Change	**33.4%**
Beta	**1.75**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Medical - Biomedical and Genetics**
Zacks Industry Rank	**Top 4% (10 out of 253)**
Last EPS Surprise	**-300.0%**
Last Sales Surprise	**-35.6%**
EPS F1 Est- 4 week change	**7.5%**
Expected Report Date	**08/04/2020**
Earnings ESP	**25.0%**
P/E TTM	**NA**
P/E F1	**34.8**
PEG F1	**NA**
P/S TTM	**19.5**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	84 E	105 E	127 E	159 E	350 E
2020	25 A	58 E	71 E	69 E	238 E
2019	57 A	39 A	46 A	54 A	196 A

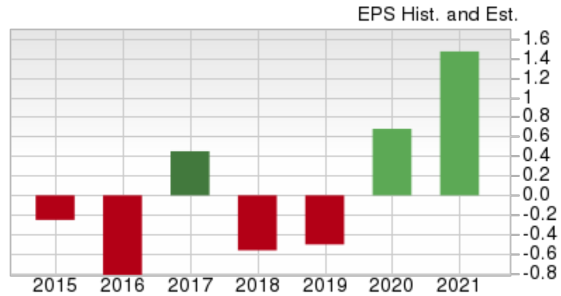
EPS Estimates

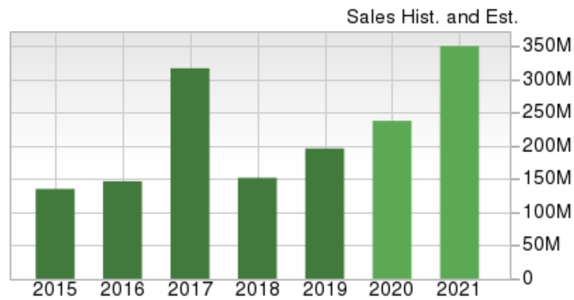
	Q1	Q2	Q3	Q4	Annual*
2021	$0.25 E	$0.34 E	$0.44 E	$0.60 E	$1.47 E
2020	-$0.04 A	$0.18 E	$0.26 E	$0.25 E	$0.68 E
2019	$0.01 A	-$0.10 A	-$0.17 A	-$0.24 A	-$0.50 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, except sales and EPS estimates, is as of 05/12/2020. The reports text and the analyst-provided sales and EPS estimates are as of 05/13/2020.

Overview





San Diego, CA-based Halozyme Therapeutics is a biopharmaceutical company, focused on the development and commercialization of novel treatments for oncology indications by targeting tumor microenvironment. The company also licenses its novel drug delivery technology, ENHANZE, for subcutaneous administration of drugs.

The company's ENHANZE drug delivery technology helps in developing subcutaneous administration of drugs. Several companies including Roche, Takeda, J&J, AbbVie, Lilly, Bristol-Myers and others are using this technology for developing subcutaneous formulation of their currently marketed drugs. The company has nine collaborations and three marketed partnered drugs based on this technology. It also recognizes revenues from sale of drug products to its collaboration partners for development of drugs using its ENHANZE platform. The platform was developed based on the company's patented recombinant human hyaluronidase enzyme (rHuPH20).

The company also has one approved product in its portfolio – Hylenex recombinant as an adjuvant to facilitate subcutaneous fluid administration. The company halted all oncology clinical activities following the failure of the late-stage study evaluating its sole pipeline candidate, PEGPH20, in November 2019.

Although Halozyme has one marketed product, it derives the majority of its revenues from royalties on sales of partnered drugs. The company generated total revenues of $196 million in 2019 compared with $151.9 million in the year-ago period.

Reasons To Buy:

> We are positive on Halozyme's collaboration deals with large pharma companies related to ENHANZE technology. The company's restructuring initiatives are also encouraging.

▲ **Shares Outperforming Industry:** Halozyme's shares have gained 33.4% so far this year compared with the industry's increase of 7%.

▲ **ENHANZE Technology Brings Majority Revenues:** Halozyme's ENHANZE drug delivery technology has been used in the development of subcutaneous formulation of three approved drugs through partnerships with Roche and Takeda. Moreover, the company's technology has attracted several other pharma/biotech companies, which use it for developing subcutaneous formulation of their pipeline candidates. These deals generate royalties on sales of marketed drugs, milestone payments for pipeline candidates and annual license fees. The company is also focused on signing new collaboration deals.

Roche's cancer drugs, Rituxan Hycela (subcutaneous formulation of Rituxan) and Herceptin SC, and Takeda's immunodeficiency drug, HyQvia, are the three marketed drugs developed using ENHANZE technology. These drugs generate the majority of revenues for the company. Roche is also developing subcutaneous formulation of Tecentriq and Perjeta. Apart from these drugs, Halozyme has collaborations with Pfizer, J&J, AbbVie, Lilly, Bristol-Myers, Alexion Pharma and ARGENX. Per the agreements, the companies have worldwide license to develop and commercialize products using Halozyme's ENHANZE technology. The FDA approved subcutaneous administration of J&J's Darzalex (DarzalexFaspro) in May 2020, which is likely to boost Halozyme's royalty revenues. The CHMP also recommended its approval in Europe, with a marketing authorization expected in mid-2020. In February 2020, the FDA accepted biologics license application (BLA) seeking approval for subcutaneous administration of the fixed-dose combination of Perjeta and Herceptin. A decision is expected by Oct 18, 2020.Regulatory submissions have been completed in Europe. These potential approvals will likely boost royalties further. Halozyme anticipates its collaboration partners using the ENHANZE technology to initiate at least three new phase III, one phase 2 clinical and at least five phase I clinical studies in 2020.

▲ **Encouraging Restructuring Initiatives:** Following the failure of its lead pipeline candidate, PEGPH20, in phase III HALO-301 study, Halozyme initiated an operational review to support future growth in November 2019. This should enable Halozyme to solely focus on its high-growth, high-margin ENHANZE technology. The company has discontinued all clinical developmental activities related to PEGPH20 and oncology operations. As part of the plan, the company has started workforce reduction to cut headcount by 55% or 160 employees. The company anticipates to achieve sustainable profitability by the second quarter of 2020.

The restructuring and cost saving efforts are likely to generate savings of $130 to $140 million in 2020. It also authorized the initiation of share repurchase program worth $550 million to be completed over the next three years, of which $200 million worth of repurchase has been completed. These initiatives are encouraging and pushed share prices higher despite clinical study failure.

▲ **Potential in Targeted Indications:** The majority of Halozyme's partnered drugs, under development or being marketed, have blockbuster status. This can lead to significant royalties for Halozyme if the subcutaneous administration of these drugs sees strong uptake. The company expects to generate $1 billion in annual royalties from its ENHANZE technology by 2027. Moreover, the ENHANZE technology is expected to bring $350 million to $450 million through 2020 to 2022 and $1 billion in milestone payments over its lifetime.

Risks

- **Overdependence on Partners:** A significant portion of Halozyme's revenues comes from its partners who are developing or marketing subcutaneous formulation of their drugs using ENHANZE drug delivery technology. The revenues are recorded as royalties or product revenues. Meanwhile, Roche's Herceptin and Rituxan, which generate the majority of royalties for the company, are facing rising biosimilar competition. This is likely to unfavorably impact Halozyme's royalty revenues going forward. The company also sells the bulk of rHuPH20 and ENHANZE drug product to its collaborators for use in clinical studies or drug manufacturing. Thus, the failure of clinical studies by partners, completion or termination of studies or collaborations and lower sales of partnered drugs will result in a decline in Halozyme's product revenues.

- **Product Sales Not Encouraging:** Halozyme's marketed product, Hylenex does not generate significant revenues for the company. In the first nine months of 2019, total sales from Hylenex were less than 10% of total revenues. Moreover, the company expects sales of Hylenex to remain flat or decline in the future as it faces intense rising competition in its targeted market.

Last Earnings Report

Halozyme Q1 Earnings & Revenues Miss Estimates

Quarter Ending	03/2020
Report Date	May 11, 2020
Sales Surprise	-35.57%
EPS Surprise	-300.00%
Quarterly EPS	-0.04
Annual EPS (TTM)	-0.55

Halozyme reported first-quarter 2020 loss of 4 cents per share, wider than the Zacks Consensus Estimate of a loss of 1 cent. The company had reported earnings of 1 cent in the year-ago quarter.

Total revenues declined 55.5% year over year to $25.4 million due to lower royalties and collaboration revenues as well as product sales. The top line also missed the Zacks Consensus Estimate of $39.35 million.

Quarterly Highlights

Halozyme's top line comprises product sales, royalties and revenues under collaborative agreements.

Royalty revenues were $16.8 million in the first quarter, down 6% from the year-ago quarter. The lower royalties resulted from lower sales of its partnered drugs due to biosimilar competition.

Product sales, solely from the sale of bulk rHuPH20 to collaborators using the ENHANZE platform for drug development, decreased 2.9% to $8.1 million in the first quarter.

Revenues under collaborative agreements were $0.4 million compared with $30.6 million in the prior-year quarter. The significant decline was due to recognition of $30 million upfront payment from argenx in the year-ago quarter.

Research and development (R&D) expenses declined 67.6% year over year to $10.2 million mainly due to discontinuation of oncology drug development efforts.

Selling, general and administrative (SG&A) expenses were $12.6 million, down 29.8% from the year-ago period. The decline was due to lower compensation and commercial-related expenses as a result of restructuring initiatives announced last year.

2020 Guidance Maintained

Despite the COVID-19 pandemic, Halozyme maintained its view for revenues and earnings in 2020 provided in January. The company expects total revenues in 2020 to be between $230 million and $245 million, indicating year-over-year growth of 17-25%. It expects reported earnings to be in the range of 60-75 cents per share.

Recent News

FDA Approves Darzalex Faspro – May 1

Halozyme announced that the FDA has approved the subcutaneous formulation of Darzalex, which will be available as Darzalex Faspro.

CHMP Recommends Subcutaneous Darzalex Approval – Apr 30

Halozyme announced that the Committee for Medicinal Products for Human Use (CHMP) recommended the approval of the subcutaneous formulation of Darzalexin in Europe. The company anticipates approval in Europe in mid-2020.

Files NDA for Subcutaneous Darzalex in Japan – Apr 26

Halozyme announced that J&J has filed a new drug application to the Ministry of Health, Labour and Welfare, seeking approval for the subcutaneous formulation of Darzalex.

FDA Accepts BLA for Subcutaneous Combination of Perjeta-Herceptin – Feb 25

Halozyme announced that the FDA has accepted a BLA submitted by Roche seeking approval for subcutaneous administration of the fixed-dose combination of Perjeta and Herceptin for treating HER2-positive breast cancer. A decision is expected by Oct 18, 2020.

Valuation

Halozyme's shares are up 33.4% in the year-to-date period and 49.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 7% while the stocks in the Zacks sector are down 3.8%, in the year-to-date period. Over the past year, stocks in the sub-industry and the sector are up 13.5% and 2.9%, respectively.

The S&P 500 Index is down 10.9% in the year-to-date period but up 1.1% in the past year.

The stock is currently trading at 20.29X trailing 12-month sales per share which compares to 3.4X for the Zacks sub-industry, 3X for the Zacks sector and 3.14X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 33.7X and as low as 6.25X, with a 5-year median of 12.4X. Our Neutral recommendation indicates that the stock will perform better than the market. Our $28.00 price target reflects 24X trailing 12-month sales per share.

The table below shows summary valuation data for HALO

Valuation Multiples - HALO

		Stock	Sub-Industry	Sector	S&P 500
P/S TTM	Current	20.29	3.4	3	3.14
	5-Year High	33.7	4.69	4.16	3.66
	5-Year Low	6.25	2.16	2.3	2.43
	5-Year Median	12.4	2.67	3.24	3.17
P/B TTM	Current	35.58	4.17	3.72	3.77
	5-Year High	162.86	5.46	5.05	4.55
	5-Year Low	NA	2.45	2.92	2.84
	5-Year Median	11.73	3.33	4.28	3.65

As of 05/12/2020

Industry Analysis Zacks Industry Rank: Top 4% (10 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Ligand Pharmaceuticals Incorporated (LGND)	Outperform	1
Eli Lilly and Company (LLY)	Outperform	1
Alkermes plc (ALKS)	Neutral	3
Amphastar Pharmaceuticals Inc (AMPH)	Neutral	2
Ascendis Pharma AS (ASND)	Neutral	3
Bausch Health Cos Inc (BHC)	Neutral	3
MerckCo Inc (MRK)	Neutral	3
Nektar Therapeutics (NKTR)	Neutral	3

Industry Comparison Industry: Medical - Biomedical And Genetics

				Industry Peers	
	HALO	X Industry	S&P 500	ACOR	PHGUF
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Neutral
Zacks Rank (Short Term)	1	-	-	2	3
VGM Score	F	-	-	A	C
Market Cap	3.21 B	207.68 M	19.25 B	37.91 M	926.30 M
# of Analysts	4	3	14	3	3
Dividend Yield	0.00%	0.00%	2.21%	0.00%	0.00%
Value Score	C	-	-	A	D
Cash/Price	0.13	0.23	0.06	2.54	NA
EV/EBITDA	-56.20	-3.65	11.70	2.49	NA
PEG Ratio	NA	2.02	2.61	NA	NA
Price/Book (P/B)	56.26	3.98	2.61	0.12	17.67
Price/Cash Flow (P/CF)	NA	15.95	10.36	0.16	NA
P/E (F1)	35.54	35.81	19.13	NA	16.44
Price/Sales (P/S)	19.54	15.00	1.96	0.21	NA
Earnings Yield	2.88%	-15.45%	5.00%	-172.15%	6.08%
Debt/Equity	6.66	0.02	0.75	0.79	NA
Cash Flow ($/share)	-0.47	-1.04	7.01	4.83	-0.16
Growth Score	F	-	-	C	B
Hist. EPS Growth (3-5 yrs)	NA%	16.29%	10.82%	NA	NA
Proj. EPS Growth (F1/F0)	235.50%	6.49%	-10.31%	20.74%	50.00%
Curr. Cash Flow Growth	-14.25%	13.90%	5.83%	107.17%	NA
Hist. Cash Flow Growth (3-5 yrs)	-0.94%	7.77%	8.52%	30.74%	NA
Current Ratio	11.14	4.93	1.27	2.38	NA
Debt/Capital	86.95%	4.34%	44.25%	44.09%	NA
Net Margin	-48.75%	-213.04%	10.59%	-131.45%	NA
Return on Equity	-48.93%	-64.55%	16.33%	-19.83%	NA
Sales/Assets	0.36	0.20	0.55	0.19	NA
Proj. Sales Growth (F1/F0)	20.88%	3.32%	-2.53%	-39.11%	17.95%
Momentum Score	A	-	-	D	B
Daily Price Chg	-4.71%	-0.72%	-2.55%	6.76%	1.37%
1 Week Price Chg	1.90%	6.36%	3.23%	-11.77%	-1.38%
4 Week Price Chg	27.77%	11.12%	-0.84%	-30.70%	39.62%
12 Week Price Chg	11.98%	-7.52%	-21.82%	-51.24%	2.07%
52 Week Price Chg	49.40%	-17.32%	-10.27%	-92.90%	68.32%
20 Day Average Volume	1,567,697	247,929	2,520,117	2,177,175	24,093
(F1) EPS Est 1 week change	4.23%	0.00%	0.00%	-17.16%	0.00%
(F1) EPS Est 4 week change	7.54%	0.00%	-6.29%	-10.46%	0.00%
(F1) EPS Est 12 week change	5.31%	0.00%	-16.21%	-32.38%	-10.00%
(Q1) EPS Est Mthly Chg	12.50%	0.00%	-12.28%	-9.85%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	F
Momentum Score	A
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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