

Halozyyme Therapeutics (HALO)

\$28.28 (As of 08/25/20)

Price Target (6-12 Months): **\$33.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/13/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: B

Momentum: F

Summary

Halozyyme reported dismal Q2 results wherein earnings and revenues missed estimates. 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 Halozyyme'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. Halozyyme'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.

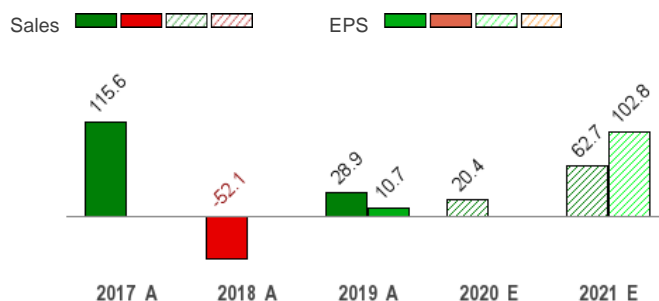
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$29.77 - \$12.71
20 Day Average Volume (sh)	891,121
Market Cap	\$3.9 B
YTD Price Change	59.5%
Beta	1.80
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Biomedical and Genetics
Zacks Industry Rank	Bottom 30% (177 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-24.0%
Last Sales Surprise	-20.9%
EPS F1 Est- 4 week change	-3.4%
Expected Report Date	11/10/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	39.3
PEG F1	NA
P/S TTM	21.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	83 E	104 E	125 E	162 E	384 E
2020	25 A	55 A	57 E	99 E	236 E
2019	57 A	39 A	46 A	54 A	196 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.29 E	\$0.38 E	\$0.49 E	\$0.69 E	\$1.46 E
2020	-\$0.04 A	\$0.19 A	\$0.19 E	\$0.40 E	\$0.72 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, including the Zacks Consensus EPS and Sales estimates, is as of 08/25/2020. The reports text is as of 08/26/2020.

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:

- ▲ **Shares Outperforming Industry:** Halozyme's shares have gained 59.5% so far this year compared with the industry's increase of 1.6%.
- ▲ **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.

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

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 (Darzalex Faspro) in May 2020 followed by an approval in Europe in June, which is likely to boost Halozyme's royalty revenues. In June 2020, the FDA approved a biologics license application (BLA) seeking approval for Phesgo injection, a single subcutaneous injection of the fixed-dose combination of Perjeta and Herceptin. Regulatory submissions have been completed in Europe. These potential approvals will likely boost royalties further. Halozyme's collaboration partners using the ENHANZE technology initiated or will 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. The company has discontinued all clinical developmental activities related to PEGPH20 and oncology operations. This enabled Halozyme to solely focus on its high-growth, high-margin ENHANZE technology. As part of the plan, the company has started workforce reduction to cut headcount by 55% or 160 employees. As a result of these restructuring activities, the company achieved 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 reach \$1 billion in milestone payments in 2027.
 - ▲ **Favorable Debt Profile:** Halozyme has a favorable debt profile. Debt to total capital ratio decreased to 0.79 as of Jun 30, 2020 compared with 0.87 at March end. A lower ratio indicates lower financial risk. As of Jun 30, 2020, the company's total debt (only long-term debt) was approximately \$390 million. The company's cash, cash equivalents, and marketable securities were approximately \$385 million as of the end of June 2020.
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Reasons To Sell:

- ▼ **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.
- ▼ **Pipeline Setbacks:** Gaining approval for pipeline candidates has become more difficult with an increasingly stringent regulatory environment. We note that Halozyme is no stranger to pipeline setbacks. In November 2019, Halozyme discontinued all clinical activities for PEGPH20 and oncology operations, following the failure of phase III HALO-301 study. The study evaluated a combination regimen of PEGPH20 first-line pancreatic cancer patients.
- ▼ **Product Sales Not Encouraging:** Halozyme's marketed product, Hylenex does not generate significant revenues for the company. In the first half of 2020, total sales from Hylenex were less than 5% 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.

Halozyme's dependence on partners for revenues remains a concern. Any setback to collaborations or partnered drugs will have an unfavorable impact.

Last Earnings Report

Halozyyme Q2 Earnings & Revenues Miss Estimate

Halozyyme reported second-quarter 2020 earnings of 19 cents per share, falling short of the Zacks Consensus Estimate of 25 cents. The company had reported a loss of 10 cents in the year-ago quarter.

Total revenues increased 41.2% year over year to \$55.2 million primarily due to collaboration payments from Bristol-Myers and Janssen, a subsidiary of J&J. However, the top line missed the Zacks Consensus Estimate of \$69.84 million.

Quarter Ending **06/2020**

Report Date	Aug 10, 2020
Sales Surprise	-20.93%
EPS Surprise	-24.00%
Quarterly EPS	0.19
Annual EPS (TTM)	-0.26

Quarterly Highlights

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

Royalty revenues were \$15.8 million in the second quarter, down 12.5% from the year-ago quarter. The lower royalties resulted from a decline in 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 10% to \$6.3 million in the second quarter.

Revenues under collaborative agreements were \$33 million compared with \$15.3 million in the prior-year quarter. The increase was due to recognition of \$25 million milestone payment from Janssen related to the launch of and first commercial sale of the subcutaneous formulation of Darzalex in the United States and Europe.

Research and development (R&D) expenses declined 73.6% year over year to \$9 million mainly due to discontinuation of oncology drug development efforts.

Selling, general and administrative (SG&A) expenses were \$11 million, down 36.7% from the year-ago period. The decline was due to lower compensation and commercial-related expenses as a result of a restructuring initiatives announced last year.

2020 Guidance Maintained

Halozyyme maintained its view for revenues and earnings in 2020. 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

Phesgo Receives FDA approval – Jun 29

Halozyme announced that the FDA has approved Roche's Phesgo subcutaneous injection, a fixed-dose combination of Perjeta and Herceptin with Halozyme's ENHANZE technology for the treatment of patients with early and metastatic HER2-positive breast cancer.

Set to Receive Milestone Payment from Janssen – Jun 22

Halozyme will receive \$10 million in milestone payment from Janssen following the first commercial sales of Darzalex Faspro in Europe.

Darzalex Subcutaneous Receives approval in Europe – Jun 5

Halozyme announced that the European Commission has approved the subcutaneous formulation of Darzalex.

Valuation

Halozyme's shares are up 59.5% in the year-to-date period and 78.9% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 1.6% while stocks in the Zacks sector are up 0.5% in the year-to-date period. Over the past year, stocks in the sub-industry and the sector are up 15.9% and 10.3%, respectively.

The S&P 500 Index is up 6.9% in the year-to-date period and 20.4% in the past year.

The stock is currently trading at 21.64X trailing 12-month sales per share which compares to 3.1X for the Zacks sub-industry, 3.14X for the Zacks sector and 3.81X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 24.27X and as low as 6.25X, with a 5-year median of 12.4X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$33.00 price target reflects 25.25X 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	21.64	3.1	3.14	3.81
	5-Year High	24.27	4.87	3.82	3.81
	5-Year Low	6.25	2.24	2.29	2.44
	5-Year Median	12.4	3.21	3.19	3.23
P/B TTM	Current	36.38	3.06	3.85	4.66
	5-Year High	162.86	5.87	5.07	4.66
	5-Year Low	NA	2.06	2.94	2.83
	5-Year Median	11.73	3.87	4.29	3.76

As of 08/25/2020

Industry Analysis Zacks Industry Rank: Bottom 30% (177 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Alkermes plc (ALKS)	Neutral	3
Amphastar Pharmaceuticals, Inc. (AMPH)	Neutral	3
Ascendis Pharma AS (ASND)	Neutral	3
Bausch Health Cos Inc. (BHC)	Neutral	3
Ligand Pharmaceuticals Incorporated (LGND)	Neutral	2
Eli Lilly and Company (LLY)	Neutral	3
MerckCo., Inc. (MRK)	Neutral	3
Nektar Therapeutics (NKTR)	Neutral	4

Industry Comparison Industry: Medical - Biomedical And Genetics				Industry Peers		
	HALO	X Industry	S&P 500	ALKS	LGND	NKTR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	2	4
VGM Score	D	-	-	B	D	F
Market Cap	3.88 B	272.85 M	23.77 B	2.62 B	1.74 B	3.46 B
# of Analysts	3	3	14	9	1	6
Dividend Yield	0.00%	0.00%	1.65%	0.00%	0.00%	0.00%
Value Score	D	-	-	C	B	F
Cash/Price	0.10	0.23	0.07	0.20	0.45	0.30
EV/EBITDA	-68.62	-3.88	13.35	-22.92	1.55	-6.73
PEG Ratio	NA	1.74	3.03	63.13	1.74	NA
Price/Book (P/B)	36.38	4.14	3.17	2.47	2.50	2.74
Price/Cash Flow (P/CF)	NA	18.30	12.81	28.34	18.12	NA
P/E (F1)	39.06	25.97	21.72	168.54	26.12	NA
Price/Sales (P/S)	21.47	15.49	2.47	2.26	13.79	21.29
Earnings Yield	2.55%	-12.64%	4.45%	0.61%	3.83%	-15.05%
Debt/Equity	3.69	0.02	0.75	0.26	0.66	0.11
Cash Flow (\$/share)	-0.47	-1.08	6.93	0.58	5.98	-2.43
Growth Score	B	-	-	B	F	F
Hist. EPS Growth (3-5 yrs)	NA%	19.03%	10.41%	NA	14.14%	NA
Proj. EPS Growth (F1/F0)	244.00%	15.73%	-4.92%	-86.23%	34.30%	-15.28%
Curr. Cash Flow Growth	-14.25%	13.92%	5.20%	-4.72%	-47.25%	-161.76%
Hist. Cash Flow Growth (3-5 yrs)	-0.94%	7.73%	8.50%	-0.32%	30.59%	NA
Current Ratio	19.19	6.03	1.33	2.95	29.51	9.29
Debt/Capital	78.70%	3.39%	44.20%	20.46%	39.77%	10.13%
Net Margin	-22.00%	-199.98%	10.25%	-10.87%	-19.51%	-264.38%
Return on Equity	-31.71%	-59.07%	14.66%	4.47%	4.41%	-28.23%
Sales/Assets	0.37	0.19	0.51	0.65	0.09	0.09
Proj. Sales Growth (F1/F0)	20.26%	1.00%	-1.45%	-15.19%	38.89%	26.16%
Momentum Score	F	-	-	A	B	D
Daily Price Chg	1.25%	0.94%	-0.03%	-1.26%	0.93%	0.91%
1 Week Price Chg	0.93%	0.00%	-1.45%	-8.03%	-1.12%	-2.05%
4 Week Price Chg	4.09%	-0.40%	3.76%	-18.34%	-11.37%	-16.62%
12 Week Price Chg	16.52%	-1.47%	5.99%	-1.38%	-2.14%	-11.31%
52 Week Price Chg	78.87%	9.53%	4.07%	-17.81%	19.95%	14.34%
20 Day Average Volume	891,121	320,033	1,880,903	1,142,971	237,407	838,753
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.36%	0.00%	1.03%	45.61%	13.69%	-2.61%
(F1) EPS Est 12 week change	-3.36%	1.34%	3.40%	50.53%	13.69%	-2.61%
(Q1) EPS Est Mthly Chg	-13.64%	0.00%	0.00%	62.70%	-23.29%	-28.57%

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	D
Growth Score	B
Momentum Score	F
VGM Score	D

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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