

Nektar Therapeutics(NKTR)

\$20.96 (As of 01/02/20)

Price Target (6-12 Months): **\$22.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/01/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: B

Growth: D

Momentum: A

Summary

Nektar has a promising pipeline with several regulatory updates/data-readouts lined up for the next several quarters. Moreover, regular partnerships have enhanced the company's financial position. The blockbuster collaboration deal with Bristol-Myers for NKTR-214 significantly boosted Nektar's cash resources. It also has encouraging co-development deals with other pharma companies. The deals boost revenues and reduce expenses by sharing research costs. On the flip side, Nektar relies heavily on partners for revenues. Partnership-related setbacks may thus weigh heavily on the company's results in the future. Shares of the company have underperformed the industry in the past year.

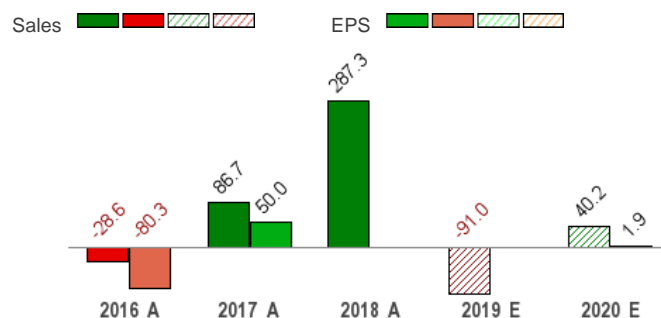
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$47.11 - \$15.64
20 Day Average Volume (sh)	1,694,516
Market Cap	\$3.7 B
YTD Price Change	-2.9%
Beta	2.60
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Drugs
Zacks Industry Rank	Top 29% (73 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	23.3%
Last Sales Surprise	11.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/27/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	30.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	28 E	29 E	36 E	63 E	150 E
2019	28 A	23 A	29 A	26 E	107 E
2018	38 A	1,088 A	28 A	40 A	1,193 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	-\$0.68 E	-\$0.67 E	-\$0.65 E	-\$0.54 E	-\$2.51 E
2019	-\$0.68 A	-\$0.63 A	-\$0.56 A	-\$0.69 E	-\$2.56 E
2018	-\$0.60 A	\$5.33 A	-\$0.56 A	-\$0.57 A	\$3.78 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 01/02/2020. The reports text is as of 01/03/2020.

Overview

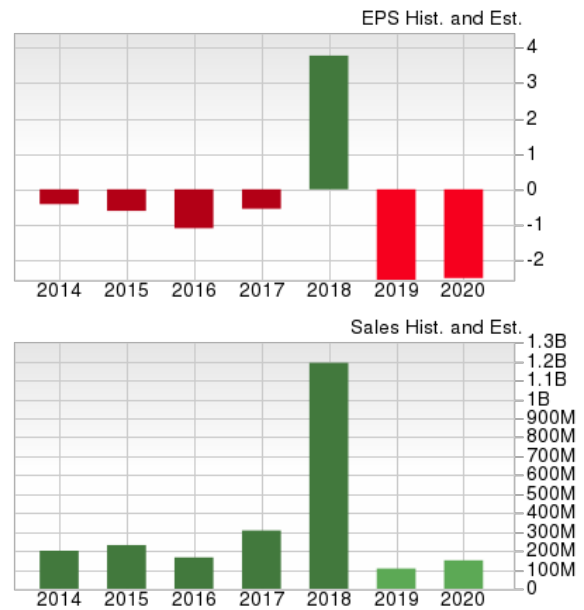
San Francisco, CA-based Nektar Therapeutics is a biopharmaceutical company, focused on the development of treatments utilizing its PEGylation and advanced polymer conjugate technology platforms.

Nektar primarily finances its operations with funds from licensing, collaboration and manufacturing agreements. It has collaboration deals with companies namely AstraZeneca, Bayer, Roche, Amgen, Bristol-Myers and Eli Lilly among others.

Nektar recognizes product sales from its manufacturing and supply agreements with several pharma companies related to products developed using its PEGylation platform. The company also earns royalty payments from the sales of products using its technology platforms. AstraZeneca's opioid-induced constipation (OIC) drug, Movantik; Takeda's hemophilia A therapy, Adynovate; and Amgen's neutropenia drug, Neulasta are few of the drugs developed using Nektar's PEGylation platform.

Meanwhile, Nektar is developing several candidates across important therapeutic areas including oncology, pain, anti-infectives and immunology. Interesting ones include Onzeald (phase III - breast cancer), bempegaldesleukin (previously NKTR-214; several studies in cancer indications) and NKTR-181 (under review – chronic pain) among others. The company is developing its pipeline candidate, NKTR-358, in collaboration with Lilly.

Nektar generated total revenues of \$1.2 billion in 2018 compared with \$307.8 million in the year-ago period.



Reasons To Buy:

- ▲ **Strong Pipeline Candidates Attracting Funds:** Nektar has deals with large pharma companies for developing its pipeline candidates. These deals provide the company with funds through upfront and milestone payments as well as enables sharing of research and marketing costs. These deals also bode well for Nektar as they provide the company strong expertise.

The company has a deal with Bristol-Myers to develop bempegaldesleukin in combination with Opdivo or Yervoy. With this deal, Nektar received \$1 billion in upfront payments and is eligible to receive almost \$1.75 billion in future payments. Per the deal, Bristol-Myers also infused \$850 million in Nektar through the acquisition of the latter's common stock. The company is evaluating bempegaldesleukin in combination with Bristol-Myers' Opdivo alone or with Yervoy under PIVOT program in more than 20 indications across nine tumor types, including melanoma, kidney, breast, bladder and non-small cell lung cancer. Three registrational studies are evaluating the combination in metastatic melanoma, renal cell carcinoma and urothelial cancer in the first-line setting.

It also has an oncology clinical collaboration with Takeda to develop bempegaldesleukin in combination with the latter's TAK-659 in liquid and solid tumors. The company will develop doublet or triplet combination therapies of bempegaldesleukin with Pfizer's Bavencio (avelumab), Talzena (talazoparib) or Xtandi (enzalutamide) in several cancer indications, under a collaboration with Pfizer. Takeda and Pfizer share the costs related to clinical studies.

Nektar has a co-development deal with Lilly to develop NKTR-358 in auto-immune and inflammatory diseases under which Lilly will bear the majority of development and commercialization costs. Nektar is also eligible to receive \$250 million in milestone payments and royalties. Under Nektar's research collaboration with Gilead, the clinical development costs for NKTR-255 in combination with the Gilead's antiretroviral therapies will be funded by Gilead.

- ▲ **Pipeline Progressing Well:** We are pleased with Nektar's efforts to build its pipeline. The company has a robust pipeline of early- and late-stage candidates. The most advanced candidate, Onzeald, a long-acting topoisomerase inhibitor is being evaluated in a phase III (ATTAIN) study for treatment of adults with advanced breast cancer, having brain metastases. The company's primary immuno-oncology candidate, bempegaldesleukin, is being evaluated as monotherapy or in combination with other drugs in several clinical studies, targeting multiple cancer indications. Other pipeline candidates include NKTR-181 (mu-opioid analgesic candidate for chronic pain conditions – under review in the United States), NKTR-358 (systemic lupus erythematosus, psoriasis, atopic dermatitis; phase Ib), NKTR-255 (relapsed, refractory non-Hodgkin lymphoma or multiple myeloma; phase I) and NKTR-262 (in combination with bempegaldesleukin; advanced solid tumors; phase I/II).

Successful development and commercialization of these candidates will likely boost the company's top line considering the lucrative markets they are targeting.

- ▲ **PEGylation Technology Generates Royalties:** Nektar's PEGylation technology has facilitated the development of more than ten approved products in the United States and the EU through partnerships with healthcare companies, including UCB's Cimzia and Amgen's Neulasta among others. These partnerships have significantly enhanced the company's financial position as it earns royalties on sales of partnered drugs.

Following deal generates major revenues for Nektar. The company has a collaboration agreement with Takeda for Adynovate for the treatment of hemophilia A. Nektar is entitled to receive royalties and sales milestones related to Adynovate. The company is entitled to significant and escalating double-digit royalty payments and sales milestone payments from AstraZeneca based on annual worldwide net sales of Movantik and Movantik fixed-dose combination products. Nektar also has license, manufacturing and supply agreements with several large pharmaceuticals, including Pfizer, related to approved drugs or drugs under development using PEGylation technology.

The U.S. and EU approval of Movantik is a huge positive for Nektar. The company also boasts a robust pipeline. Moreover, its collaborations bode well for growth.

Reasons To Sell:

▼ **Overdependence on Partners:** Nektar relies heavily on partners for revenues in the form of collaboration, license and milestone payments. Potential milestone payments and royalties associated with Movantik and Adynovate under agreements with AstraZeneca and Takeda, respectively, should impact Nektar's near-term financial condition. If the approved drugs fail to achieve commercial success or if the candidates in development fail to generate positive late-stage outcomes sufficient to support regulatory approval in major markets, it could significantly impact the company's top line. For instance, following failure of IVERIC bio's late-stage candidate, Fovista, for the treatment of wet age-related macular degeneration, Nektar terminated its license and supply agreement with IVERIC bio in 2017. Therefore, the company's heavy dependence on its partners is concerning.

Nektar relies heavily on collaboration agreements for funds. Stiff competition remains a threat as well. Any hiccup on the development/regulatory front could adversely impact shares.

▼ **Pipeline and Regulatory Setbacks:** Gaining approval for pipeline candidates has become more difficult with an increasingly stringent regulatory environment. We note that Nektar is no stranger to pipeline setbacks. In July 2019, the FDA informed Nektar that it will postpone the product-specific advisory committee meetings for discussing NKTR-181 NDA due to a number of scientific and policy issues relating to opioid analgesics. On its third-quarter earnings call, the company stated that the FDA is yet to provide a date for the meeting. This is likely lead to delay in the approval of NKTR-181, previously expected in August 2019. Previously, in September 2013, NKTR-181, failed to meet the primary objectives in a phase II study.

In July 2019, Nektar informed that sub-optimal lots of bempegaldesleukin have led to reduced response rate in cancer patients evaluated in clinical studies under PIVOT program. Nektar is enrolling additional treatment-naïve NSCLC patients for consistent results, which may lead to delay in bempegaldesleukin-Opdivo combo development.

Earlier, Nektar faced setbacks related to Onzeald development when a late-stage study evaluating it in advanced metastatic breast cancer failed in 2015. Nektar's European collaborator to Onzeald terminated the agreement following failure to receive approval in Europe. The company has several pipeline-related updates upcoming over the next several quarters. Any additional hiccup on the development or regulatory front could pull down the stock significantly and hamper the company's growth prospects.

▼ **Stiff Competition:** Nektar's PEGylation and advanced polymer conjugate chemistry platforms and partnered and proprietary products in the market face competition from various pharmaceutical and biotechnology companies. Players in PEGylation and polymer conjugate chemistry technology space include Biogen, Savient Pharmaceuticals, Dr. Reddy's, Bayer and Novo Nordisk, among others. Notably, Movantik faces competition from the currently available alternative therapies that are used to address OIC and opioid-induced bowel dysfunction (OBD), including Takeda's Amitiza, Bausch Health's Relistor, and oral and rectal over-the-counter laxatives and stool softeners. In addition, there are a number of companies, including Merck, Ironwood Pharmaceuticals, GlaxoSmithKline and others are developing treatments targeting OIC and OBD across different patient populations. Meanwhile, Adynovate faces competition from Biogen's Eloctate. In fact, competition is likely to increase with approvals of Bayer's Jivi and Novo Nordisk's Esperoct.

Onzeald, upon approval, will face competition from a number of chemotherapies and other cancer therapies, approved or in various stages of development, for breast cancer. Competition will be stiff from the likes of Abraxane, Gemzar, Herceptin and Ibrance. In fact, bempegaldesleukin also is set to face stiff competition. The immuno-oncology segment is led by Merck's Keytruda, followed by Opdivo and several candidates being developed by various pharma companies. Also, NKTR-181 will face competition from approved therapies of several small and large pharma companies, including Lilly, Pfizer, Teva and Cara Therapeutics. Notably, NKTR-358 will compete with several drugs, which are approved or under development for autoimmune diseases, including Lilly's Olumiant and Galxo's Benlysta. Competitive pressures may dent the company's top line and growth prospects.

Last Earnings Report

Nektar Q3 Earnings & Revenues Top Estimates

Nektar Therapeutics reported a loss of 56 cents per share for the third quarter of 2019, narrower than the Zacks Consensus Estimate of a loss of 73 cents but flat year over year.

Quarterly revenues were up 5% year over year to \$29.2 million, which beat the Zacks Consensus Estimate of \$26.21 million.

Quarter in Detail

Nektar's top line comprises product sales, royalty revenues, non-cash royalty revenues besides license, collaboration and other revenues.

In the third quarter, product sales increased 30.6% from the year-ago period to \$5.6 million. Non-cash royalty revenues were up 22.6% to \$10.3 million.

Nektar's royalty revenues remained almost flat year over year at \$10.3 million in the quarter.

License, collaboration and other revenues came in at \$3.1 million, registering a decline of 36% year over year.

Research and development expenses declined 3.8% to \$99 million, primarily due to lower expense related to clinical development of bempegaldesleukin

General and administrative expenses were up 28.3% to \$24 million in the reported quarter, primarily due to costs related to commercialization initiatives to support launch of NKTR-181 upon potential approval and higher stock-based compensation expenses.

Quarter Ending 09/2019

Report Date	Nov 06, 2019
Sales Surprise	11.46%
EPS Surprise	23.29%
Quarterly EPS	-0.56
Annual EPS (TTM)	-2.44

Recent News

Appoints New Board Member – Nov 25

Nektar announced that it has appointed Myriam J. Curet to its board of directors as an independent director. Curet has an experience of three decades in the healthcare sector and academia. She currently serves as executive vice president and chief medical officer for Intuitive Surgical.

Initiates Phase I Study on NKTR-255 – Oct 16

Nektar announced that it has initiated a phase I study to evaluate NKTR-255 as monotherapy in patients with relapsed, refractory non-Hodgkin lymphoma or multiple myeloma.

Initiates Two Clinical Studies on NKTR-358 – Oct 7

Nektar announced that it has initiated two phase Ib studies to evaluate NKTR-358 in patients with psoriasis and atopic dermatitis, separately. These two studies are sponsored by its collaboration partner, Eli Lilly.

Valuation

Nektar's shares are down 38.3% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector are up 9.2% and 8.6%, respectively.

The S&P 500 index is up 26.2% in the past year.

The stock is currently trading at 34.39X forward 12-month sales per share, which compares to 2.07X for the Zacks sub-industry, 2.88X for the Zacks sector and 3.46X for the S&P 500 index.

Over the past five years, the stock has traded as high as 67.31X and as low as 6.22X, with a 5-year median of 14.12X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$22.00 price target reflects 36.1X forward 12-month sales per share.

The table below shows summary valuation data for NKTR

Valuation Multiples - NKTR					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	34.39	2.07	2.88	3.46
	5-Year High	67.31	3.69	3.8	3.46
	5-Year Low	6.22	2.07	2.42	2.54
	5-Year Median	14.12	2.78	2.94	3
P/B TTM	Current	2.47	1.65	4.59	4.41
	5-Year High	1138.8	12.39	5	4.42
	5-Year Low	1.87	0.95	3.47	2.9
	5-Year Median	40.07	2.49	4.26	3.6

As of 01/02/2020

Industry Analysis Zacks Industry Rank: Top 29% (73 out of 253)



Top Peers

Alkermes plc (ALKS)	Neutral
Biogen Inc. (BIIB)	Neutral
Bristol-Myers Squibb Company (BMY)	Neutral
Gilead Sciences, Inc. (GILD)	Neutral
Merck & Co., Inc. (MRK)	Neutral
Novo Nordisk A/S (NVO)	Neutral
Roche Holding AG (RHHBY)	Neutral
Dr. Reddys Laboratories Ltd (RDY)	Underperform

Industry Comparison Industry: Medical - Drugs				Industry Peers		
	NKTR Neutral	X Industry	S&P 500	BIIB Neutral	NVO Neutral	RDY Underperform
VGM Score	C	-	-	A	B	B
Market Cap	3.69 B	118.05 M	23.76 B	53.09 B	138.20 B	6.71 B
# of Analysts	8	2	13	25	3	1
Dividend Yield	0.00%	0.00%	1.78%	0.00%	1.09%	0.65%
Value Score	B	-	-	A	C	B
Cash/Price	0.39	0.27	0.04	0.08	0.02	0.06
EV/EBITDA	3.51	-1.92	13.97	7.74	16.66	12.57
PEG Ratio	NA	1.28	2.02	1.12	2.21	NA
Price/Book (P/B)	2.47	3.27	3.38	3.79	17.51	3.08
Price/Cash Flow (P/CF)	5.24	10.30	13.70	9.27	21.21	15.00
P/E (F1)	NA	15.20	18.83	8.93	20.57	26.80
Price/Sales (P/S)	30.58	5.58	2.68	3.73	7.66	2.85
Earnings Yield	-11.98%	-15.00%	5.30%	11.20%	4.87%	3.73%
Debt/Equity	0.26	0.03	0.72	0.35	0.06	0.10
Cash Flow (\$/share)	4.00	-0.56	6.94	31.74	2.75	2.70
Growth Score	D	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	NA%	8.54%	10.56%	16.34%	9.01%	-5.32%
Proj. EPS Growth (F1/F0)	1.90%	20.42%	7.41%	-0.54%	15.78%	-7.93%
Curr. Cash Flow Growth	-1,067.24%	13.56%	14.83%	11.67%	7.15%	29.21%
Hist. Cash Flow Growth (3-5 yrs)	46.22%	8.03%	9.00%	19.17%	5.65%	-0.91%
Current Ratio	12.60	3.65	1.23	1.91	1.00	1.96
Debt/Capital	20.90%	8.33%	42.92%	25.81%	5.24%	9.03%
Net Margin	-352.83%	-118.66%	11.08%	37.91%	32.44%	16.20%
Return on Equity	-26.60%	-67.23%	17.10%	46.14%	75.48%	18.44%
Sales/Assets	0.06	0.29	0.55	0.54	1.03	0.72
Proj. Sales Growth (F1/F0)	40.49%	7.72%	4.20%	-1.07%	8.54%	10.55%
Momentum Score	A	-	-	A	D	F
Daily Price Chg	-2.90%	0.00%	0.33%	-0.84%	0.83%	-0.27%
1 Week Price Chg	1.17%	1.47%	0.13%	-0.32%	0.45%	-0.12%
4 Week Price Chg	5.54%	5.08%	3.31%	-1.72%	2.26%	0.92%
12 Week Price Chg	29.94%	4.80%	9.70%	31.95%	12.99%	8.53%
52 Week Price Chg	-33.63%	-14.67%	30.28%	-4.16%	23.72%	10.03%
20 Day Average Volume	1,694,516	190,850	1,603,615	1,347,724	1,198,326	133,087
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.01%	-0.93%	0.00%
(F1) EPS Est 12 week change	-4.41%	0.41%	-0.57%	2.09%	-1.05%	-26.70%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.02%	-0.90%	NA

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	B
Growth Score	D
Momentum Score	A
VGM Score	C

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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