Nektar Therapeutics(NKTR)

$22.85 (As of 02/13/20)

Price Target (6-12 Months): **$25.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/01/20) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:C
	Value: B | Growth: D | Momentum: B	

Summary

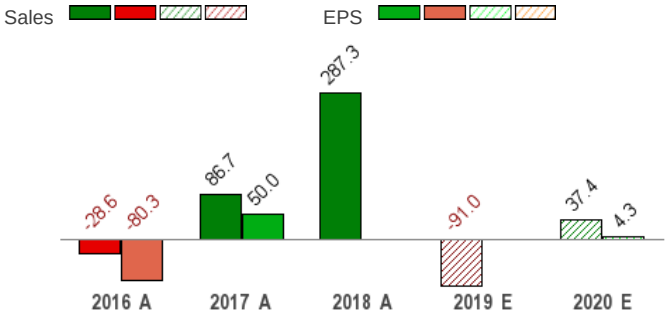
Nektar has a promising pipeline with several regulatory updates/data-readouts lined up for the next several quarters. Moreover, regular partnerships have enhanced the company's financial position. The blockbuster collaboration deal with Bristol-Myers for NKTR-214 significantly boosted Nektar's cash resources. 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	**$44.06 - $15.64**
20 Day Average Volume (sh)	**1,598,851**
Market Cap	**$4.0 B**
YTD Price Change	**5.9%**
Beta	**2.62**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Medical - Drugs**
Zacks Industry Rank	**Top 31% (80 out of 255)**
Last EPS Surprise	**23.3%**
Last Sales Surprise	**11.5%**
EPS F1 Est- 4 week change	**1.4%**
Expected Report Date	**02/27/2020**
Earnings ESP	**-1.8%**
P/E TTM	**NA**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**33.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	35 E	26 E	28 E	49 E	147 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	-$0.57 E	-$0.62 E	-$0.62 E	-$0.53 E	-$2.45 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 02/13/2020. The reports text is as of 02/14/2020.

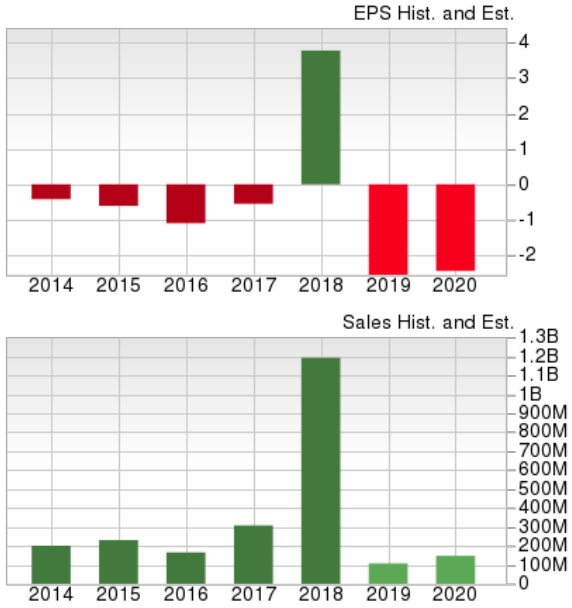
Overview

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:

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.

▲ **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 (bempeg) 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. Two new registrational studies are being planned to evaluate the combination in adjuant melanoma and muscle-invasive bladder cancer.

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), Talzenna (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-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.

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 January 2020, two FDA advisory committees did not recommend NKTR-181's approval. The company has withdrawn the NDA for the candidate and decided to stop further development of the candidate following the unfavorable decision. 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-naive 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 Onzelad 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

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**

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.

Recent News

NKTR-181 Gets Adverse Advisory Committee Decision – Jan 14

Nektar announced that two FDA advisory committees did not give recommendation for approval to its chronic pain candidate, oxycodegol, formerly known as NKTR-181. The company met Anesthetic and Analgesic Drug Products Advisory Committee, and Drug Safety and Risk Management Advisory Committee to discuss the new drug application ("NDA") for oxycodegol. The company has withdrawn the NDA for the candidate and decided to stop further development of the candidate following the unfavorable decision.

The company stated that discontinuation of NKTR-181 development will help the company to generate cost savings in the range of $75-$125 million in 2020. The savings will be led by reduction in estimated costs related to planned NKTR-181 commercialization and post-approval studies.

Nektar Expands Bempeg Collaboration With Bristol-Myers – Jan 10

Nektar announced a revision to its strategic collaboration agreement related to development of bempeg with Bristol-Myers. The companies have agreed to a new joint development plan, per which they plan to initiate new registrational studies to evaluate bempeg in combination with Bristol-Meyrs' PD-1 inhibitor, Opdivo, as a treatment for adjuvant melanoma and muscle-invasive bladder cancer. Bristol-Myers will separately fund and conduct a phase I/II study, evaluating the combination regimen, under the new deal terms. It will be a dose optimization study, followed by an expansion study in patients with non-small cell lung cancer in the first-line setting.

Valuation

Nektar's shares are up 5.8% in the year-to-date period but down 46.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are up 0.6% and 1.1% in the year-to-date period. Over the past year, stocks in the sub-industry are down 1.1% while stocks in the sector are up 2.9%.

The S&P 500 Index is up 4.4% in the year-to-date period and 22.9% in the past year.

The stock is currently trading at 3.18X trailing 12-month book value per share, which compares to 1.55X for the Zacks sub-industry, 4.52X for the Zacks sector and 4.46X for the S&P 500 index.

Over the past five years, the stock has traded as high as 1138.8X and as low as 1.87X, with a 5-year median of 39.57X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our $25.00 price target reflects 3.48X trailing 12-month book value per share.

Industry Analysis **Zacks Industry Rank:** Top 31% (80 out of 255)

Top Peers

Bristol-Myers Squibb Company **(BMY)**	Outperform
Alkermes plc **(ALKS)**	Neutral
Biogen Inc. **(BIIB)**	Neutral
Merck & Co., Inc. **(MRK)**	Neutral
Novo Nordisk A/S **(NVO)**	Neutral
Roche Holding AG **(RHHBY)**	Neutral
Gilead Sciences, Inc. **(GILD)**	Underperform
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	C	B
Market Cap	4.02 B	109.86 M	24.56 B	58.18 B	148.57 B	7.60 B
# of Analysts	7	2	13	28	3	2
Dividend Yield	0.00%	0.00%	1.78%	0.00%	1.01%	0.57%
Value Score	B	-	-	B	D	D
Cash/Price	0.38	0.27	0.04	0.08	0.02	0.04
EV/EBITDA	3.96	-2.13	14.00	7.50	16.81	14.15
PEG Ratio	NA	0.99	2.10	1.23	2.35	NA
Price/Book (P/B)	2.69	3.03	3.31	4.52	17.21	3.65
Price/Cash Flow (P/CF)	5.71	10.72	13.68	8.65	22.21	16.99
P/E (F1)	NA	15.38	19.23	10.10	22.54	32.29
Price/Sales (P/S)	33.34	5.48	2.69	4.05	8.12	3.12
Earnings Yield	-10.72%	-14.81%	5.20%	9.91%	4.43%	3.10%
Debt/Equity	0.26	0.03	0.71	0.37	0.05	0.01
Cash Flow ($/share)	4.00	-0.61	6.92	38.63	2.82	2.70
Growth Score	D	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	NA%	7.74%	10.85%	16.51%	8.20%	-0.76%
Proj. EPS Growth (F1/F0)	4.24%	17.54%	7.17%	-1.37%	13.14%	-13.41%
Curr. Cash Flow Growth	-1,067.24%	14.53%	8.56%	9.02%	-0.50%	29.21%
Hist. Cash Flow Growth (3-5 yrs)	46.22%	8.38%	8.36%	11.97%	7.63%	-0.91%
Current Ratio	12.60	3.65	1.23	1.72	1.06	1.81
Debt/Capital	20.90%	7.98%	42.91%	26.75%	4.97%	0.81%
Net Margin	-352.83%	-110.57%	11.81%	40.96%	31.95%	9.62%
Return on Equity	-26.60%	-67.23%	16.86%	46.51%	73.70%	18.08%
Sales/Assets	0.06	0.29	0.54	0.54	1.02	0.75
Proj. Sales Growth (F1/F0)	37.39%	9.93%	3.85%	-0.78%	8.28%	8.93%
Momentum Score	B	-	-	D	C	A
Daily Price Chg	-2.66%	0.00%	0.00%	0.75%	-0.95%	2.64%
1 Week Price Chg	13.68%	0.40%	2.47%	25.98%	3.98%	1.10%
4 Week Price Chg	-4.39%	-6.11%	0.56%	16.81%	2.33%	11.13%
12 Week Price Chg	13.60%	4.05%	6.96%	15.87%	16.10%	13.77%
52 Week Price Chg	-46.39%	-25.78%	16.68%	2.94%	26.03%	21.59%
20 Day Average Volume	1,598,851	198,855	2,020,569	2,065,347	1,287,420	231,821
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.05%	0.00%	0.00%
(F1) EPS Est 4 week change	1.41%	0.00%	-0.05%	-0.93%	-1.42%	2.16%
(F1) EPS Est 12 week change	2.39%	0.00%	-0.17%	-1.18%	-4.13%	-9.55%
(Q1) EPS Est Mthly Chg	5.33%	0.00%	-0.24%	1.54%	NA	NA

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	B
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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