

Nektar Therapeutics(NKTR)

\$18.06 (As of 03/30/20)

Price Target (6-12 Months): **\$19.00**

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:F

Value: D

Growth: D

Momentum: C

Summary

Nektar reported encouraging fourth-quarter results, beating estimates for both earnings and sales. Nektar has a promising pipeline with several regulatory updates/data-readouts lined up for 2020. 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.

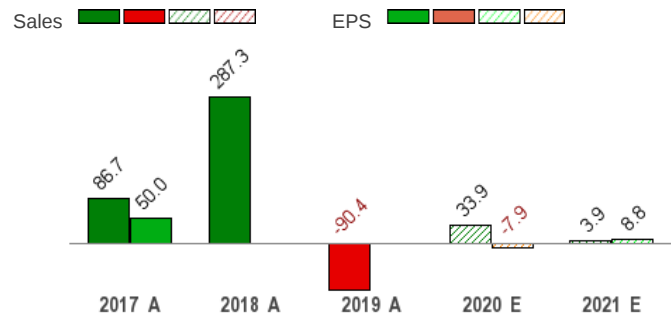
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$37.00 - \$13.63
20 Day Average Volume (sh)	1,756,521
Market Cap	\$3.2 B
YTD Price Change	-16.3%
Beta	2.48
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Drugs
Zacks Industry Rank	Top 10% (26 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	7.3%
Last Sales Surprise	28.6%
EPS F1 Est- 4 week change	-3.4%
Expected Report Date	05/13/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	28.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	30 E	25 E	26 E	34 E	160 E
2020	45 E	23 E	48 E	38 E	154 E
2019	28 A	23 A	29 A	34 A	115 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.72 E	-\$0.66 E	-\$0.70 E	-\$0.73 E	-\$2.48 E
2020	-\$0.67 E	-\$0.75 E	-\$0.69 E	-\$0.55 E	-\$2.72 E
2019	-\$0.68 A	-\$0.63 A	-\$0.56 A	-\$0.64 A	-\$2.52 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 03/30/2020. The reports text is as of 03/31/2020.

Overview

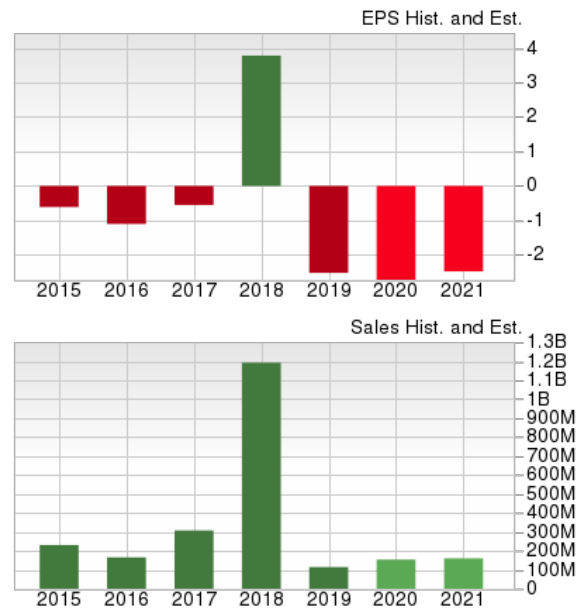
San Francisco, CA-based Nektar Therapeutics is a biopharmaceutical company, focused on the development of treatments utilizing its PEGylation and advanced polymer conjugate technology platforms.

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 targeting cancer and autoimmune therapeutic areas. Interesting ones include NKTR-358 (auto-immune and inflammatory diseases) and bempegaldesleukin (previously NKTR-214; several studies in cancer indications) among others.

Nektar generated total revenues of \$114.6 million in 2019 compared with \$1.19 billion in the year-ago period. The significant decrease was due to an upfront payment of \$1.06 billion received from Bristol-Myers related to a collaboration agreement in 2018.



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 (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 bempeg 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. Four registrational studies are evaluating the combination in metastatic melanoma, renal cell carcinoma and urothelial cancer in the first-line setting and muscle-invasive bladder cancer. A new registrational study will be initiated soon to evaluate the combination in adjuvant melanoma.

It also has an oncology clinical collaboration with Takeda to develop bempeg in combination with the latter's TAK-659 in liquid and solid tumors. The company will develop doublet or triplet combination therapies of bempeg 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 is also developing a combination of bempeg and Merck's Keytruda as a treatment for non-small cell lung cancer.

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 internal pipeline. The company has a robust pipeline of early- and late-stage candidates. The company's primary immuno-oncology candidate, bempeg, is being evaluated as monotherapy or in combination with other drugs in several clinical studies, targeting multiple cancer indications. The company plans to file a regulatory application seeking approval for bempeg in one of the targeted indications, followed by launch, in 2021. 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; refractory melanoma; phase 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 partnered 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. The company decided to terminate all development activities related to Onzeald in February 2020, following its failure in a late-stage breast cancer 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 will lead to delay in bempeg-Opdivo combo development.

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, Dr. Reddy's, Horizon Pharma 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.

Upon approval, bempegaldesleukin will face stiff competition. The immuno-oncology segment is led by Merck's Keytruda, followed by Bristol-Myers' Opdivo and Roche's Tecentriq. Several candidates are also being developed by various pharma companies. Notably, NKTR-358 will compete with several drugs, which are approved or under development for autoimmune diseases, including Lilly's Osimertinib and Galxo's Benlysta. Competitive pressures may dent the company's top line and growth prospects.

Last Earnings Report

Nektar Q4 Earnings & Revenues Top Estimates

Nektar Therapeutics reported a loss of 64 cents per share for the fourth quarter of 2019, narrower than the Zacks Consensus Estimate of a loss of 69 cents but wider than a loss of 57 cents per share incurred in the year-ago period.

Quarterly revenues were down 14.8% year over year to \$33.9 million. However, revenues comfortably beat the Zacks Consensus Estimate of \$26.3 million.

Quarter Ending **12/2019**

Report Date	Feb 27, 2020
Sales Surprise	28.57%
EPS Surprise	7.25%
Quarterly EPS	-0.64
Annual EPS (TTM)	-2.51

Quarter in Detail

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

In the fourth quarter, product sales increased 33.4% from the year-ago period to \$5.8 million. Non-cash royalty revenues were down 2.8% to \$8.7 million.

Nektar's royalty revenues were up 1.1% year over year to \$12.2 million in the quarter.

License, collaboration and other revenues came in at \$7.1 million, registering a decline of 50.6% year over year.

Research and development expenses increased 1.4% to \$110.4 million, primarily due to higher expense related to clinical development of bempeg and other pipeline candidates.

General and administrative expenses were up 14.2% to \$27.1 million in the reported quarter.

Full-Year Results

Nektar reported total revenues of \$114.6 million in 2019 compared with \$1.19 billion in the year-ago period. The significant decrease was due to an upfront payment of \$1.06 billion from Bristol-Myers related to a collaboration agreement recorded in 2018. The company reported loss of \$2.52 per share in 2019 against earnings of \$3.78 in 2018.

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, oxycodogol, 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 oxycodogol. 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-Myers’ 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 down 19.1% in the year-to-date period and 47.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and sector are down 19.4% and 12.9% in the year-to-date period. Over the past year, stocks in the sub-industry and sector are down 24.8% and 12.3%, respectively.

The S&P 500 Index is down 18.5% in the year-to-date period and 8.9% in the past year.

The stock is currently trading at 27.75X trailing 12-month sales per share, which compares to 2.25X for the Zacks sub-industry, 2.76X for the Zacks sector and 2.84X for the S&P 500 index.

Over the past five years, the stock has traded as high as 55.8X and as low as 4.21X, with a 5-year median of 11.55X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$19.00 price target reflects 29.2X trailing 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 TTM	Current	27.75	2.25	2.76	2.84
	5-Year High	55.8	4.25	4.17	3.69
	5-Year Low	4.21	1.91	2.34	2.43
	5-Year Median	11.55	2.65	3.26	3.19
P/B TTM	Current	2.26	1.29	3.36	3.53
	5-Year High	1101.7	13.2	5.05	4.55
	5-Year Low	NA	0.98	2.84	2.85
	5-Year Median	6.31	2.53	4.3	3.63

As of 03/30/2020

Industry Analysis Zacks Industry Rank: Top 10% (26 out of 254)



Top Peers

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

Industry Comparison Industry: Medical - Drugs				Industry Peers		
	NKTR Neutral	X Industry	S&P 500	BIIB Neutral	NVO Neutral	RDY Neutral
VGM Score	F	-	-	A	C	B
Market Cap	3.21 B	82.74 M	18.21 B	55.03 B	142.51 B	6.67 B
# of Analysts	7	2	13	27	3	
Dividend Yield	0.00%	0.00%	2.3%	0.00%	1.88%	0.65%
Value Score	D	-	-	B	C	C
Cash/Price	0.43	0.32	0.06	0.09	0.02	0.04
EV/EBITDA	-5.32	-1.27	11.22	7.10	16.11	12.36
PEG Ratio	NA	1.05	1.74	0.97	2.05	NA
Price/Book (P/B)	2.26	2.40	2.41	4.28	16.51	3.20
Price/Cash Flow (P/CF)	NA	9.33	9.70	8.18	21.31	14.92
P/E (F1)	NA	14.32	15.12	9.67	21.62	28.35
Price/Sales (P/S)	27.98	4.55	1.96	3.83	7.79	2.74
Earnings Yield	-15.06%	-18.87%	6.55%	10.34%	4.62%	3.53%
Debt/Equity	0.10	0.02	0.70	0.37	0.05	0.01
Cash Flow (\$/share)	-2.43	-0.50	7.01	38.63	2.82	2.70
Growth Score	D	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	NA%	3.96%	10.89%	16.51%	8.20%	-0.76%
Proj. EPS Growth (F1/F0)	-7.88%	17.60%	1.80%	-2.64%	13.14%	-13.41%
Curr. Cash Flow Growth	-161.76%	6.68%	5.93%	9.02%	-0.50%	29.21%
Hist. Cash Flow Growth (3-5 yrs)	NA%	6.21%	8.55%	11.97%	7.63%	-0.91%
Current Ratio	4.02	3.27	1.23	1.72	1.06	1.81
Debt/Capital	9.22%	6.75%	42.57%	26.75%	4.97%	0.81%
Net Margin	-383.36%	-112.83%	11.64%	40.96%	31.95%	9.62%
Return on Equity	-28.89%	-65.31%	16.74%	46.51%	73.70%	18.08%
Sales/Assets	0.06	0.32	0.54	0.54	1.02	0.75
Proj. Sales Growth (F1/F0)	34.54%	0.00%	2.08%	-1.73%	8.28%	8.93%
Momentum Score	C	-	-	B	B	C
Daily Price Chg	4.82%	0.00%	2.63%	6.53%	6.08%	4.33%
1 Week Price Chg	5.90%	7.11%	12.32%	6.45%	14.70%	4.72%
4 Week Price Chg	-10.15%	-19.61%	-18.22%	-3.59%	-1.54%	0.32%
12 Week Price Chg	-14.00%	-26.11%	-23.36%	8.70%	5.56%	0.50%
52 Week Price Chg	-45.67%	-42.61%	-17.22%	35.98%	15.44%	-0.76%
20 Day Average Volume	1,756,521	228,393	4,211,236	2,434,374	2,907,619	234,951
(F1) EPS Est 1 week change	0.00%	0.00%	-0.19%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-3.37%	0.00%	-3.07%	0.07%	0.85%	0.00%
(F1) EPS Est 12 week change	-8.36%	-0.59%	-4.15%	-0.66%	-1.88%	-5.96%
(Q1) EPS Est Mthly Chg	-5.29%	0.00%	-2.28%	-3.73%	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	D
Growth Score	D
Momentum Score	C
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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