

Theravance Biopharma (TBPH)

\$26.09 (As of 03/04/20)

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

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/01/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: F

Summary

Theravance earnings missed estimates in fourth-quarter 2019 while revenues beat the same. The company has a collaboration agreement with Mylan for the development and marketing of Yupelri, the first once-daily nebulized LAMA option for COPD. The product is witnessing a strong uptake ever since its launch in early 2019. Moreover, its collaboration agreements are a source of regular funds. Theravance's pipeline programs target highly competitive therapeutic areas and are progressing well. However, any agreement termination might be a huge setback for the company as was the case in the past. Moreover, dependence on Yupelri for profit-sharing revenues is a persistent concern. Shares of the company have outperformed the industry in the past year.

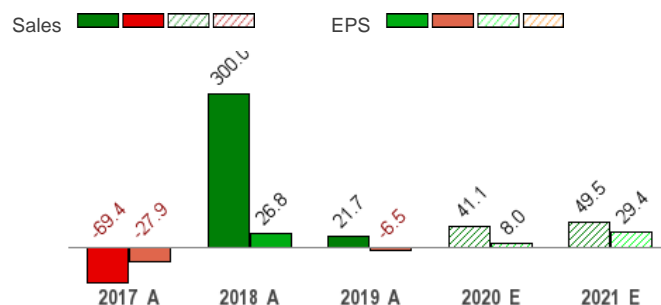
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$31.54 - \$15.18
20 Day Average Volume (sh)	639,851
Market Cap	\$1.6 B
YTD Price Change	0.8%
Beta	1.73
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Drugs
Zacks Industry Rank	Top 35% (89 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.4%
Last Sales Surprise	60.9%
EPS F1 Est- 4 week change	-1.9%
Expected Report Date	05/05/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	22.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	34 E	36 E	40 E	45 E	154 E
2020	18 E	23 E	27 E	34 E	103 E
2019	5 A	26 A	12 A	30 A	73 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.69 E	-\$0.68 E	-\$0.70 E	-\$0.60 E	-\$2.76 E
2020	-\$1.06 E	-\$0.95 E	-\$0.89 E	-\$0.85 E	-\$3.91 E
2019	-\$1.32 A	-\$0.72 A	-\$1.05 A	-\$1.17 A	-\$4.25 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 03/04/2020. The reports text is as of 03/05/2020.

Overview

Cayman Islands-based Theravance Biopharma was formed following the split of the erstwhile Theravance into two listed companies in June 2014 – Innoviva, Inc. (then Theravance, Inc.) and Theravance.

In November 2018, the FDA approved Yupelri, a long-acting muscarinic antagonist (LAMA), as a once-daily, nebulized treatment of chronic obstructive pulmonary disease (COPD).

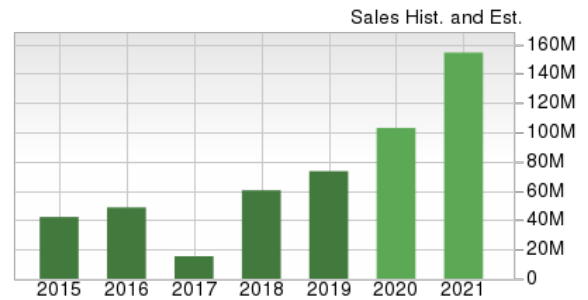
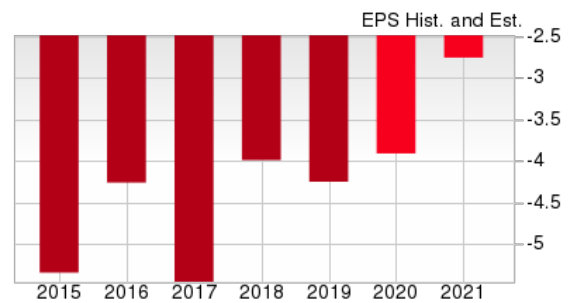
Theravance and Mylan have a collaboration for the development and commercialization of the drug. Mylan and Theravance are sharing US profits and losses received in connection with the commercialization of Yupelri. While Mylan gets 65% of the profits, Theravance gets 35%. Meanwhile, Theravance is entitled to low double-digit royalties on ex-US net sales. Mylan recognizes the product sales from Yupelri. Mylan also owns a stake in Theravance.

The company also has a collaboration agreement with J&J's subsidiary, Janssen, for developing its JAK inhibitor, TD-1473, for the treatment of inflammatory intestinal diseases. Theravance has an economic interest in GlaxoSmithKline's COPD drug, Trelegy Ellipta, and earns royalties on its sales.

Theravance has several candidates in pipeline targeting therapeutic areas, such as infectious, respiratory, gastrointestinal, inflammation and immunology diseases. Some are being developed in collaboration with other companies.

Theravance's sole marketed product was Vibativ (telavancin), a once-daily dual-mechanism antibiotic to treat certain difficult-to-treat infections. In November 2018, Theravance sold Vibativ to Cumberland Pharmaceuticals.

In 2019, the company generated revenues worth \$73.4 million, up 21.5% year over year.



Reasons To Buy:

- ▲ **Share Price Outperformance:** Shares of Theravance have outperformed its industry in the past year. The stock has increased 14.6% against the industry's decrease of 10.4%.
- ▲ **Collaboration Agreements – A Consistent Source of Funds:** Theravance has been very active in pursuing collaboration deals with big healthcare companies. Its collaboration with Mylan for Yupelri is expected to be beneficial for the former based on the latter's expertise in manufacturing and selling nebulized respiratory therapies. In June 2019, Theravance received \$18.5 million from Mylan as an upfront fee on the expansion of their joint development and commercialization deal for Yupelri to include China and certain neighboring territories.

We are positive on Theravance's efforts related to Yupelri's commercialization. The company's partnership deals with companies like Mylan & J&J are also encouraging.

Theravance entered into a global collaboration agreement with J&J subsidiary Janssen to jointly develop and commercialize TD-1473 in February 2018. Theravance received an upfront payment of \$100 million and is eligible for additional \$900 million in milestone payments under the deal.

Theravance inked a worldwide deal with Takeda for TD-8954 (post-operative gastrointestinal dysfunction; phase II) in June 2016. Per the deal, Theravance received an upfront cash payment of \$15 million and is eligible to earn other development, regulatory and sales milestone fees in addition to tiered royalties on global net sales.

Moreover, in December 2019, Theravance announced a deal to out-license rights to its skin-selective pan-JAK inhibitor program to Pfizer. Per the agreement, Theravance received an upfront payment of \$10 million in cash and is eligible for up to an additional \$240 million in development and sales-based milestone fees from Pfizer.

- ▲ **Continued Pipeline Progress:** The company's pipeline includes TD-1473, a JAK inhibitor, currently being evaluated in an ongoing phase II study for treating Crohn's disease and a phase IIb/III study for ulcerative colitis. Data from the phase IIb portion of the ulcerative colitis and phase II Crohn's disease studies are expected in late 2020. Theravance is also evaluating ampreloxetine (TD-9855) in two phase III programs for treating patients with symptomatic neurogenic orthostatic hypotension (nOH).

Meanwhile, the company is developing the inhaled, lung-selective pan-Janus kinase (JAK) inhibitor, TD-8236, in a phase I study for treating inflammatory lung diseases with minimal systemic exposure. Last December, the company dosed the first patient in a phase II allergen challenge study on TD-8236 to address inflammatory lung diseases with data from the same expected in mid-2020.

Successful development and subsequent approval of these candidates will be a huge boost to the company as each of these programs has the potential to offer transformational value to patients and healthcare providers.

- ▲ **Yupelri Approval a Huge Boost:** With the approval, Yupelri became the first once daily nebulized long-acting muscarinic antagonist (LAMA) option for COPD patients. Yupelri provides COPD patients with access to a nebulized LAMA therapy offering a consistent 24-hour lung function improvement with the convenience of a once-daily dosing delivered through any standard jet nebulizer. Theravance and Mylan formally launched the sales and marketing efforts of Yupelri in early 2019 and the product witnessed a strong initial sales uptake. As of October 2019, Yupelri achieved 86% share of the nebulized LAMA market and a 10.7% stake in the long-acting nebulized market.
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Reasons To Sell:

- ▼ **Dependence on Collaboration/Profit Sharing Revenues for Future Growth:** With the sale of Vibativ to Cumberland Pharmaceuticals last November, Theravance is now solely dependent on profit-sharing revenue from Mylan for Yupelri and collaboration revenues from J&J for funds.
- ▼ **Stiff Competition:** Theravance's pipeline development programs targeting the four therapeutic areas of infectious disease, respiratory, gastrointestinal disease and inflammatory disease operate in a highly competitive space.

In addition, the newly approved, first once-daily nebulized LAMA, Yupelri would compete predominantly with short-acting nebulized bronchodilators used 3 to 4 times per day.

Dependence on Yupelri as the sole product for profits is a concern. Stiff competition remains a threat as well.

Last Earnings Report

Theravance Q4 Earnings Miss, Revenues Beat Estimates

Theravance Biopharma incurred a loss of \$1.17 per share in fourth-quarter 2019, wider than the Zacks Consensus Estimate of \$1.11 and also the year-ago loss of 92 cents.

However, total revenues of \$29.5 million in the quarter beat the Zacks Consensus Estimate of \$18 million. Revenues also soared 87.9% year over year, mainly owing to an upfront payment from Pfizer for rights to its skin-selective pan-JAK inhibitor program. Total revenues in the fourth quarter comprised collaboration revenues worth \$9.6 million and \$9.9 million received from Mylan.

Quarter Ending **12/2019**

Report Date	Feb 24, 2020
Sales Surprise	60.93%
EPS Surprise	-5.41%
Quarterly EPS	-1.17
Annual EPS (TTM)	-4.26

Quarterly Details

Research & development expenses were \$67 million, up 28.1% from the year-ago quarter, primarily due to higher employee-related expenses and higher external cost.

Selling, general & administrative expenses escalated 29.4% to \$33 million due to higher share-based compensation.

As of Dec 31, 2019, Theravance had cash, cash equivalents, marketable securities of \$285.8 million compared with \$352.9 million as of Sep 30, 2019.

2020 Outlook

For the full year, Theravance anticipates operating loss (excluding non-cash share-based compensation) in the range of \$205-\$225 million

Recent News

Inks License Agreement with Pfizer – Dec 23

Theravance and Pfizer entered into a global license agreement for Theravance's preclinical program related to skin-targeted, locally-acting pan-Janus kinase (JAK) inhibitors that can be rapidly metabolized. Per the agreement, Theravance will be eligible to receive an upfront payment of \$10 million in cash and will be eligible for up to an additional \$240 million in development and sales based milestone payments from Pfizer.

Initiates Dosing in Phase II Study on TD-8236 – Dec 3

Theravance announced that it has dosed the first patient in a phase II allergen challenge study of TD-8236 being developed for the treatment of inflammatory lung diseases.

Valuation

Theravance's shares are up 0.8% in the year-to-date period and 14.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are down 7.1% and 6.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 10.4% and the sector is down 5.2%.

The S&P 500 index is down 7% in the year-to-date period but up 7% in the past year.

The stock is currently trading at 19.94X trailing 12-month sales per share, which compares to 3.13X for the Zacks sub-industry, 2.94X for the Zacks sector and 3.23X for the S&P 500 index.

Over the past five years, the stock has traded as high as 113.27X and as low as 9.33X, with a 5-year median of 26.10X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$28.00 price target reflects 21.39X trailing 12-month sales per share

Industry Analysis Zacks Industry Rank: Top 35% (89 out of 255)



Top Peers

AcelRx Pharmaceuticals, Inc. (ACRX)	Neutral
Adamas Pharmaceuticals, Inc. (ADMS)	Neutral
Allergan plc (AGN)	Neutral
Arena Pharmaceuticals, Inc. (ARNA)	Neutral
AstraZeneca PLC (AZN)	Neutral
GlaxoSmithKline plc (GSK)	Neutral
Novartis AG (NVS)	Neutral

Industry Comparison Industry: Medical - Drugs				Industry Peers		
	TBPH Neutral	X Industry	S&P 500	ACRX Neutral	AGN Neutral	ARNA Neutral
VGM Score	F	-	-	F	A	F
Market Cap	1.63 B	106.18 M	22.29 B	116.97 M	64.46 B	2.51 B
# of Analysts	6	2	13	4	7	4
Dividend Yield	0.00%	0.00%	1.97%	0.00%	1.51%	0.00%
Value Score	F	-	-	F	C	D
Cash/Price	0.21	0.29	0.05	0.77	0.09	0.33
EV/EBITDA	-8.46	-1.90	13.20	-1.84	41.15	3.56
PEG Ratio	NA	0.66	1.94	NA	1.57	NA
Price/Book (P/B)	NA	3.32	3.05	NA	1.11	2.34
Price/Cash Flow (P/CF)	NA	12.01	12.16	NA	5.34	6.33
P/E (F1)	NA	15.90	17.58	NA	11.18	NA
Price/Sales (P/S)	22.22	6.11	2.45	48.20	4.01	3.11
Earnings Yield	-14.99%	-14.52%	5.69%	-42.18%	8.95%	-19.12%
Debt/Equity	-2.20	0.03	0.70	-0.92	0.32	0.04
Cash Flow (\$/share)	-4.11	-0.60	7.01	-0.59	36.72	7.89
Growth Score	F	-	-	F	A	F
Hist. EPS Growth (3-5 yrs)	NA%	5.25%	10.85%	NA	4.06%	NA
Proj. EPS Growth (F1/F0)	8.00%	17.54%	6.26%	10.43%	-0.65%	-224.12%
Curr. Cash Flow Growth	9.94%	8.02%	6.03%	-6.41%	-3.45%	-391.34%
Hist. Cash Flow Growth (3-5 yrs)	-9.18%	7.65%	8.52%	-8.02%	11.44%	46.33%
Current Ratio	3.03	3.31	1.23	7.49	1.01	16.90
Debt/Capital	NA%	7.47%	42.57%	NA	24.18%	4.08%
Net Margin	-322.08%	-118.66%	11.69%	-2,116.81%	-32.76%	49.30%
Return on Equity	NA%	-66.36%	16.66%	NA	9.82%	34.11%
Sales/Assets	0.16	0.30	0.54	0.02	0.17	0.64
Proj. Sales Growth (F1/F0)	40.20%	8.55%	3.94%	NA	-0.06%	-99.65%
Momentum Score	F	-	-	D	A	F
Daily Price Chg	2.84%	1.80%	3.75%	12.21%	2.08%	6.41%
1 Week Price Chg	-5.51%	-9.26%	-12.06%	-14.84%	-4.74%	-15.35%
4 Week Price Chg	-16.41%	-7.37%	-7.42%	-11.98%	2.00%	0.67%
12 Week Price Chg	25.92%	-2.24%	-4.61%	-38.37%	4.98%	6.50%
52 Week Price Chg	14.58%	-29.58%	7.38%	-59.28%	42.49%	8.82%
20 Day Average Volume	639,851	194,246	2,456,671	921,922	3,014,584	576,967
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-33.12%
(F1) EPS Est 4 week change	-1.91%	0.00%	-0.06%	0.00%	3.23%	-44.46%
(F1) EPS Est 12 week change	-0.09%	0.00%	-0.41%	0.00%	3.38%	-45.61%
(Q1) EPS Est Mthly Chg	-7.11%	0.00%	-0.27%	0.00%	1.92%	-26.50%

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	F
Growth Score	F
Momentum Score	F
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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