Theravance Biopharma (TBPH)

$26.96 (As of 05/13/20)

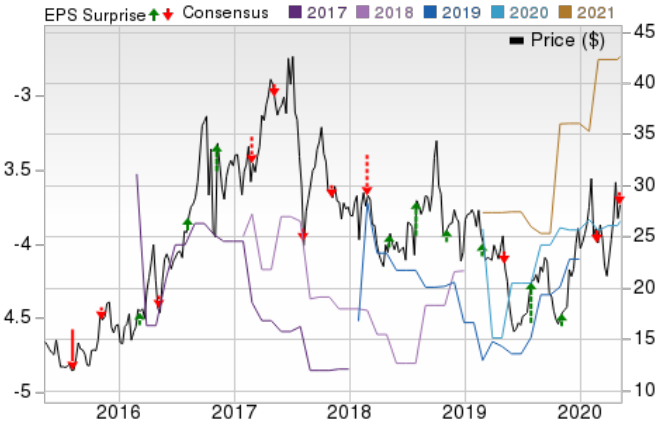
Price Target (6-12 Months): **$32.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/10/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**2-Buy**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: D | Momentum: C	

Summary

Theravance's earnings missed estimates in Q1 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 so far this year.

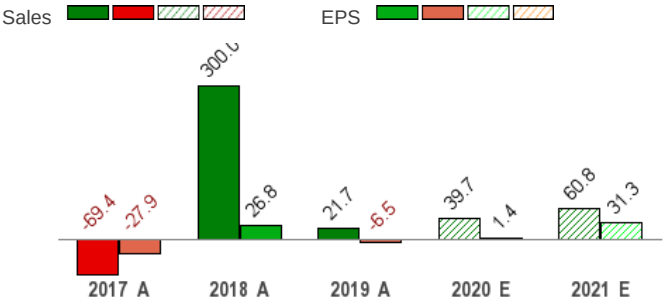
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$31.54 - $15.18**
20 Day Average Volume (sh)	**308,738**
Market Cap	**$1.7 B**
YTD Price Change	**4.1%**
Beta	**1.54**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Medical - Drugs**
Zacks Industry Rank	**Top 6% (16 out of 253)**
Last EPS Surprise	**-7.6%**
Last Sales Surprise	**10.2%**
EPS F1 Est- 4 week change	**2.0%**
Expected Report Date	**07/29/2020**
Earnings ESP	**-5.7%**
P/E TTM	**NA**
P/E F1	**NA**
PEG F1	**NA**
P/S TTM	**19.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	41 E	37 E	41 E	46 E	164 E
2020	20 A	23 E	24 E	35 E	102 E
2019	5 A	26 A	12 A	30 A	73 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-$0.77 E	-$0.76 E	-$0.83 E	-$0.72 E	-$2.88 E
2020	-$1.14 A	-$1.02 E	-$0.97 E	-$0.74 E	-$4.19 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 05/13/2020. The reports text is as of 05/14/2020.

Overview

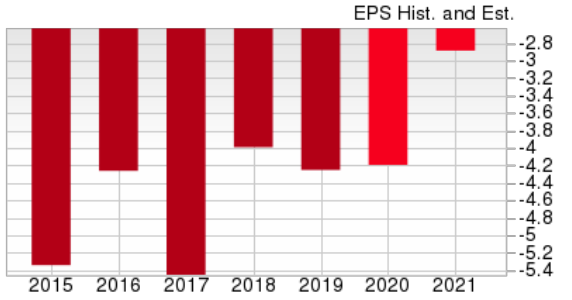
Cayman Islands-based Theravance Biopharma was formed following the split of the erstwhile Theravance into two listed companies in June 2014 – Innoviva, Inc. (then Theravance, Inc.) and Theravance.

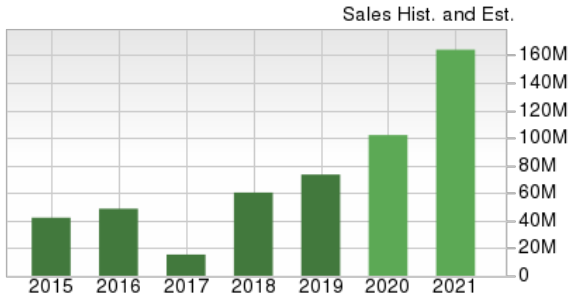
In November 2018, the FDA approved Yupelri, a long-acting muscarinic antagonist (LAMA), as a once-daily, nebulized treatment of chronic obstructive pulmonary disease (COPD).

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 so far this year.

- **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. Moreover, in March 2020, Theravance earned a $1.5-million development milestone for the acceptance of a clinical trial application regarding the use of Yupelri as a monotherapy in China and adjacent 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 nexpected in 2021. Theravance is also evaluating ampreloxetine (TD-9855) in two phase III programs for treating patients with symptomatic neurogenic orthostatic hypotension (nOH).Theravance is also developing TD-5202 (gut-selective irreversible JAK3 inhibitor) in a phase I study for addressing inflammatory intestinal diseases.

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 the second half of 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. Per the company, as of January 2020, Yupelri achieved 87% share of the nebulized LAMA market and a 13.7% stake in the long-acting nebulized market.

Risks

- **Dependence on Collaboration/Profit Sharing Revenues for Future Growth:** With the sale of Vibativ to Cumberland Pharmaceuticals in November 2018, Theravance is now solely dependent on profit-sharing revenue from Mylan for Yupelri and collaboration revenues from J&J for funds. Moreover, on first-quarter 2020 conference call, management stated that Yupelri sales could be affected by the COVID-19 outbreak during the second quarter of 2020.

- **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.

  Moreover, Yupelri, the newly approved, first once-daily nebulized LAMA would compete predominantly with short-acting nebulized bronchodilators, which are used 3 to 4 times per day compared to the nebulized LAMA LonhalaTM MagnairTM (SUN-101/eFlow), which is used twice per day.

- **Unfavorable Debt Profile:** Theravance has an unfavorable debt profile. As of Mar 31, 2020, the company's total debt (current and long-term debt) was approximately $655 million. The company's cash, cash equivalents, and marketable securities were approximately $487 million, as of the end of March 2020. Although the company has enough resources to pay off its short-term debt ($8 million), the company's total debts exceeds its total assets, which may lead to bankruptcy in case of insolvency. However, the company's debt to capital of 131.8% as of March end demonstrates a decline from 178.1% at December end.

Last Earnings Report

Theravance Q1 Earnings Miss, Revenues Beat Estimates

Quarter Ending	03/2020
Report Date	**May 06, 2020**
Sales Surprise	**10.23%**
EPS Surprise	**-7.55%**
Quarterly EPS	**-1.14**
Annual EPS (TTM)	**-4.08**

Theravance Biopharma incurred an adjusted loss of $1.14 per share in first-quarter 2020, wider than the Zacks Consensus Estimate of $1.06 but narrower than the year-ago loss of $1.32.

Adjusted loss in the quarter excluded a loss on the extinguishment of debt.

Total revenues of $19.9 million in the quarter beat the Zacks Consensus Estimate of $18 million. Also, the top line improved significantly year over year, mainly owing to higher revenues recognized from the collaboration agreements with Mylan and J&J.

Total revenues in the first quarter comprised collaboration revenues worth $6.6 million from Janssen and a $11.7-million amount received from Mylan in relation to Yupelri. Total revenues also included licensing revenues of $1.6 million.

Quarterly Details

Research & development expenses were $66 million, up 22.6% from the year-ago quarter, primarily due to higher external cost pertaining to pipeline development.

Selling, general & administrative expenses rose 4.3% to $26.3 million due to higher share-based compensation and employee-related expenses.

As of Mar 31 2020, Theravance had cash, cash equivalents and marketable securities worth $492.1 million compared with $285.8 million as of Dec 31, 2019.

2020 Outlook

Theravance maintained its financial guidance for 2020. For the full year, the company anticipates operating loss (excluding non-cash share-based compensation) in the range of $205-$225 million.

Recent News

Begins Dosing in Phase I Study on TD-0903 – Apr 23

Theravance announced that it has dosed the first healthy volunteer in a phase I study evaluating its lung-selective nebulized Janus kinase inhibitor, TD-0903 for the potential treatment of hospitalized patients with Acute Lung Injury (ALI) caused by COVID-19.

Advances TD-0903 Into Clinical Development – Apr 9

Theravance announced that it is pushing TD-0903 into clinical development to assess the candidate's utility in preventing the cytokine storm associated with acute lung injury in patients hospitalized due to COVID-19 for preventing progression to acute respiratory distress dyndrome (ARDS). The company submitted a clinical trial application (CTA) in the United Kingdom for the first-in-human study of TD-0903, a lung-selective nebulized Janus kinase inhibitor (JAKi) for the given indication.

Valuation

Theravance's shares are up 4.1% in the year-to-date period and 27.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are down 10.2% and 3.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 8.7% while the sector is up 2.3%.

The S&P 500 index is down 11% in the year-to-date period but up 0.3% in the past year.

The stock is currently trading at 18.23X trailing 12-month sales per share, which compares to 2.46X for the Zacks sub-industry, 3.00X for the Zacks sector and 3.14X 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 24.90X. Our Outperform recommendation indicates that the stock will perform better than the market. Our $32.00 price target reflects 21.63X trailing 12-month sales per share.

Industry Analysis **Zacks Industry Rank:** Top 6% (16 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
AbbVie Inc **(ABBV)**	Neutral	3
AcelRx Pharmaceuticals Inc **(ACRX)**	Neutral	3
Adamas Pharmaceuticals Inc **(ADMS)**	Neutral	2
Arena Pharmaceuticals Inc **(ARNA)**	Neutral	2
AstraZeneca PLC **(AZN)**	Neutral	2
GlaxoSmithKline plc **(GSK)**	Neutral	2
Novartis AG **(NVS)**	Neutral	3
Pulmatrix Inc **(PULM)**	NA	3

Industry Comparison Industry: Medical - Drugs

	TBPH	X Industry	S&P 500	ABBV	ACRX	ARNA
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	3	2
VGM Score	D	-	-	A	F	C
Market Cap	1.70 B	107.15 M	18.76 B	131.24 B	124.38 M	2.37 B
# of Analysts	4	3	14	6	3	4
Dividend Yield	0.00%	0.00%	2.23%	5.31%	0.00%	0.00%
Value Score	D	-	-	B	D	B
Cash/Price	0.16	0.24	0.06	0.32	0.53	0.31
EV/EBITDA	-10.00	-1.61	11.39	12.93	-1.60	3.16
PEG Ratio	NA	1.11	2.54	1.90	NA	NA
Price/Book (P/B)	NA	3.19	2.56	NA	NA	2.40
Price/Cash Flow (P/CF)	NA	9.25	10.04	8.60	NA	5.97
P/E (F1)	NA	15.83	18.48	8.56	NA	NA
Price/Sales (P/S)	19.34	5.39	1.91	3.85	51.61	420.31
Earnings Yield	-15.54%	-17.69%	5.09%	11.68%	-31.82%	-18.91%
Debt/Equity	-4.10	0.02	0.75	-8.53	-0.41	0.05
Cash Flow ($/share)	-4.11	-0.49	7.01	10.33	-0.65	7.89
Growth Score	D	-	-	B	F	F
Hist. EPS Growth (3-5 yrs)	NA%	4.67%	10.82%	21.62%	NA	NA
Proj. EPS Growth (F1/F0)	1.35%	16.62%	-10.51%	16.07%	27.36%	-215.70%
Curr. Cash Flow Growth	9.94%	5.26%	5.83%	8.78%	10.73%	-391.34%
Hist. Cash Flow Growth (3-5 yrs)	0.03%	6.05%	8.52%	19.92%	-13.70%	46.33%
Current Ratio	5.45	3.33	1.27	3.14	3.69	18.67
Debt/Capital	NA%	5.91%	44.25%	NA	NA	4.32%
Net Margin	-280.80%	-115.64%	10.59%	24.77%	-2,302.53%	-5,727.22%
Return on Equity	NA%	-63.52%	16.36%	-169.80%	NA	-29.30%
Sales/Assets	0.18	0.31	0.54	0.46	0.02	0.00
Proj. Sales Growth (F1/F0)	38.97%	0.00%	-2.55%	33.40%	828.35%	-99.74%
Momentum Score	C	-	-	A	C	A
Daily Price Chg	-5.37%	-1.49%	-2.85%	-1.76%	0.65%	-6.92%
1 Week Price Chg	4.97%	2.86%	3.23%	1.35%	3.33%	9.61%
4 Week Price Chg	4.05%	5.00%	-0.28%	8.62%	19.38%	-0.23%
12 Week Price Chg	6.58%	-13.43%	-23.80%	-5.60%	3.36%	-12.76%
52 Week Price Chg	27.59%	-32.37%	-13.31%	12.81%	-50.16%	-15.90%
20 Day Average Volume	308,738	213,768	2,552,088	12,436,145	1,150,636	519,877
(F1) EPS Est 1 week change	-1.48%	0.00%	0.00%	2.74%	-3.16%	13.02%
(F1) EPS Est 4 week change	2.02%	0.00%	-6.15%	1.57%	-8.89%	13.02%
(F1) EPS Est 12 week change	-1.22%	-0.46%	-16.21%	-0.22%	21.28%	-34.66%
(Q1) EPS Est Mthly Chg	-8.15%	0.00%	-12.28%	-10.60%	0.00%	10.25%

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	D
Momentum Score	C
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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