

Theravance Biopharma (TBPH)

\$16.70 (As of 08/14/20)

Price Target (6-12 Months): **\$18.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/08/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: D

Summary

Theravance missed on earnings and revenues for the second quarter. 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. Further, high dependence on Yupelri for profit-sharing revenues is a persistent concern. Shares of the company have also underperformed the industry so far this year.

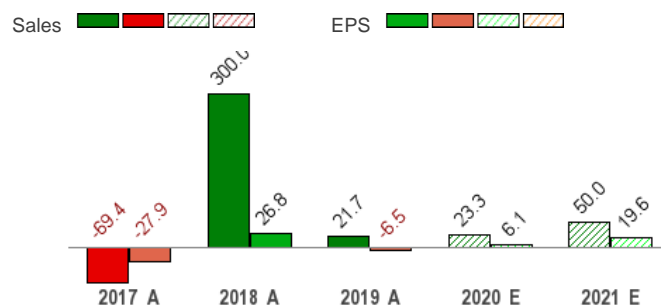
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$31.54 - \$15.72
20 Day Average Volume (sh)	298,546
Market Cap	\$1.1 B
YTD Price Change	-35.5%
Beta	1.37
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Drugs
Zacks Industry Rank	Bottom 25% (188 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-5.3%
Last Sales Surprise	-28.7%
EPS F1 Est- 4 week change	1.6%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	13.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	39 E	36 E	40 E	44 E	135 E
2020	20 A	15 A	20 E	36 E	90 E
2019	5 A	26 A	12 A	30 A	73 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.72 E	-\$0.80 E	-\$0.80 E	-\$0.74 E	-\$3.21 E
2020	-\$1.14 A	-\$1.00 A	-\$0.95 E	-\$0.75 E	-\$3.99 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 08/14/2020. The reports text is as of 08/17/2020.

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).

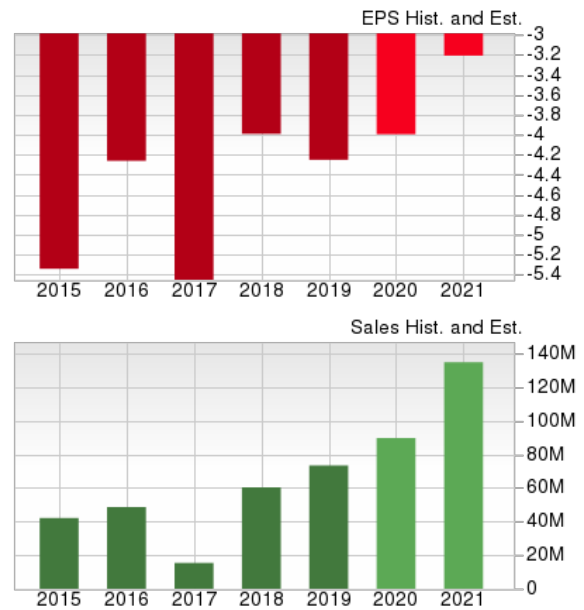
Theravance and Mylan have a collaboration for the development and commercialization of the drug. Mylan and Theravance are sharing US profits and losses received in connection with the commercialization of Yupelri. While Mylan gets 65% of the profits, Theravance gets 35%. Meanwhile, Theravance is entitled 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:

- ▲ **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. 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.

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 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 in the future.

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 2021. Theravance is also evaluating amprelosetine (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. Data from the study is expected in the fourth quarter of 2020. In June 2020, Theravance initiated dosing in a phase II study evaluating its lung-selective, nebulized Janus kinase inhibitor (JAKi) TD-0903 for the potential treatment of hospitalized patients with acute lung injury (ALI) caused by COVID-19.

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 has Significant Potential:** 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. Yupelri commands more than 90% share of the nebulized LAMA market and a 16% stake in the long-acting nebulized market. On second-quarter 2020 conference call, management stated that despite the pandemic woes, which dwindled overall market demand, Yupelri expanded its market share and witnessed a strong customer acceptance and brand performance across the key market metrics.

- ▲ **Favorable Debt Profile:** Theravance has a favorable debt profile. As of Jun 30, 2020, the company's total debt (current and long-term debt) was approximately \$658 million. The company's cash, cash equivalents and marketable securities were approximately \$438 million as of the end of June 2020. Hence, the company has enough resources to pay off its short-term debt (\$9 million) but might fall short of clearing the long-term debt in case of insolvency.
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Reasons To Sell:

- ▼ **Share Price Underperformance:** Shares of Theravance have underperformed its industry so far this year.
- ▼ **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.

- ▼ **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.

Yupelri, competes predominantly with short-acting nebulized bronchodilators, which are used three to four times per day compared with the nebulized LAMA Lonhala Magnair (SUN-101/eFlow), developed by Pari Pharma, which is used twice 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 Earnings & Revenues Miss Estimates in Q2

Theravance Biopharma incurred a loss of \$1 per share in second-quarter 2020, wider than the Zacks Consensus Estimate of a loss of 95 cents and the year-ago loss of 72 cents as well.

Total revenues of \$15 million in the quarter also missed the Zacks Consensus Estimate of \$21 million. Revenues declined year over year too, mainly due to lower revenues from the collaboration agreement with J&J and the absence of licensing revenues.

Total revenues in the second quarter comprised collaboration revenues worth \$5.5 million from Janssen and \$9.5 million from the collaboration agreement with Mylan in relation to Yupelri.

Quarter Ending **06/2020**

Report Date	Aug 06, 2020
Sales Surprise	-28.72%
EPS Surprise	-5.26%
Quarterly EPS	-1.00
Annual EPS (TTM)	-4.36

Quarterly Details

Research & development expenses were \$62.4 million, up 34.4% from the year-ago quarter, primarily due to higher external cost pertaining to pipeline development.

Selling, general & administrative expenses rose 11.7% to \$24.8 million due to higher share-based compensation and employee-related expenses.

As of Jun 30, 2020, Theravance had cash, cash equivalents, marketable securities worth \$438.3 million compared with \$492.1 million as of Mar 31, 2020.

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

Appoints Board of Director – Jul 2

Theravance announced that it has appointed Dr. Deepika R. Pakianathan to its board of directors.

Begins Dosing in Phase II Study on TD-0903 – Jun 25

Theravance announced that it has dosed the first patient in a phase II 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.

The initiation of the above-mentioned phase II study in patients in the United Kingdom follows the successful completion of dosing in the phase I study in healthy volunteers at the same clinical unit.

Valuation

Theravance's shares are down 35.5% in the year-to-date period and 21.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Medical sector are down 5.9% and up 0.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 2.3% while the sector is up 8%.

The S&P 500 index is up 4.6% in the year-to-date period and up 15.4% in the past year.

The stock is currently trading at 13.67X trailing 12-month sales per share, which compares to 2.18X for the Zacks sub-industry, 3.09X for the Zacks sector and 3.78X 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 Neutral recommendation indicates that the stock will perform better than the market. Our \$18.00 price target reflects 14.73X trailing 12-month sales per share.

Industry Analysis Zacks Industry Rank: Bottom 25% (188 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
AbbVie Inc. (ABBV)	Neutral	3
AcelRx Pharmaceuticals, Inc. (ACRX)	Neutral	3
Adamas Pharmaceuticals, Inc. (ADMS)	Neutral	3
Arena Pharmaceuticals, Inc. (ARNA)	Neutral	3
AstraZeneca PLC (AZN)	Neutral	3
GlaxoSmithKline plc (GSK)	Neutral	3
Novartis AG (NVS)	Neutral	3
Accelaron Pharma Inc. (XLRN)	Neutral	3

Industry Comparison Industry: Medical - Drugs				Industry Peers		
	TBPH	X Industry	S&P 500	ABBV	ACRX	ARNA
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	F	-	-	B	F	B
Market Cap	1.06 B	141.69 M	23.68 B	167.78 B	118.32 M	3.67 B
# of Analysts	8	3	14	6	4	5
Dividend Yield	0.00%	0.00%	1.68%	4.96%	0.00%	0.00%
Value Score	F	-	-	B	F	B
Cash/Price	0.43	0.24	0.07	0.04	0.49	0.32
EV/EBITDA	-5.91	-2.75	13.36	20.40	-1.71	4.97
PEG Ratio	NA	1.11	2.99	1.52	NA	NA
Price/Book (P/B)	NA	3.38	3.22	11.39	NA	2.95
Price/Cash Flow (P/CF)	NA	11.26	12.82	9.20	NA	8.06
P/E (F1)	NA	18.02	22.06	9.09	NA	NA
Price/Sales (P/S)	13.81	6.41	2.51	4.63	26.93	650.42
Earnings Yield	-23.89%	-15.19%	4.30%	11.00%	-32.82%	-11.83%
Debt/Equity	-3.21	0.03	0.77	5.57	-0.34	0.04
Cash Flow (\$/share)	-4.11	-0.51	6.94	10.33	-0.65	7.89
Growth Score	F	-	-	C	F	D
Hist. EPS Growth (3-5 yrs)	NA%	5.38%	10.41%	21.34%	NA	NA
Proj. EPS Growth (F1/F0)	6.03%	18.07%	-6.32%	16.98%	36.57%	-197.82%
Curr. Cash Flow Growth	9.94%	2.74%	5.20%	8.78%	10.73%	-391.34%
Hist. Cash Flow Growth (3-5 yrs)	0.03%	6.17%	8.55%	19.92%	-13.70%	46.33%
Current Ratio	4.68	3.78	1.33	0.86	2.96	28.75
Debt/Capital	NA%	4.60%	44.59%	84.78%	NA	3.38%
Net Margin	-351.55%	-117.10%	10.13%	19.20%	-1,131.00%	-5,727.22%
Return on Equity	NA%	-63.10%	14.51%	-628.57%	NA	-31.14%
Sales/Assets	0.15	0.27	0.51	0.37	0.05	0.00
Proj. Sales Growth (F1/F0)	22.22%	0.00%	-1.43%	36.69%	811.97%	-99.88%
Momentum Score	D	-	-	D	A	A
Daily Price Chg	-1.30%	0.00%	0.12%	0.41%	5.65%	-2.66%
1 Week Price Chg	-7.52%	1.17%	2.30%	-2.10%	21.10%	3.06%
4 Week Price Chg	-22.90%	-2.35%	4.41%	-4.85%	22.43%	-4.82%
12 Week Price Chg	-38.96%	0.00%	13.66%	2.20%	-10.27%	10.73%
52 Week Price Chg	-21.49%	1.00%	5.80%	50.95%	-40.72%	20.25%
20 Day Average Volume	298,546	358,403	1,984,154	6,748,088	1,527,455	464,409
(F1) EPS Est 1 week change	2.61%	0.00%	0.00%	0.00%	17.87%	0.00%
(F1) EPS Est 4 week change	1.55%	0.00%	2.08%	0.02%	27.35%	11.86%
(F1) EPS Est 12 week change	1.89%	0.78%	2.66%	-1.71%	20.19%	15.46%
(Q1) EPS Est Mthly Chg	-8.18%	0.00%	0.94%	1.73%	50.00%	13.55%

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	F
Growth Score	F
Momentum Score	D
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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