

Theravance Biopharma (TBPH)

\$26.14 (As of 01/27/20)

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: D

Momentum: C

Summary

Theravance 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. Mylan and Theravance are sharing profits and losses in the United States regarding the commercialization of Yupelri. Moreover, 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 also a persistent concern. Shares have outperformed the industry in the past year. Loss estimates have narrowed ahead of Q4 earnings release. Theravance has a mixed record of earnings surprises in the recent quarters.

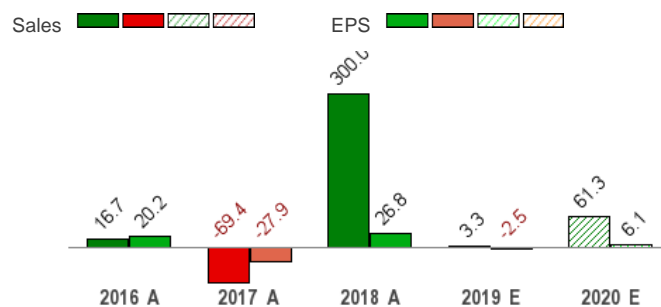
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$28.44 - \$15.18
20 Day Average Volume (sh)	236,509
Market Cap	\$1.5 B
YTD Price Change	1.0%
Beta	1.85
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Medical - Drugs
Zacks Industry Rank	Top 42% (106 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-6.8%
EPS F1 Est- 4 week change	1.8%
Expected Report Date	02/25/2020
Earnings ESP	4.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	23 E	24 E	25 E	26 E	100 E
2019	5 A	26 A	12 A	18 E	62 E
2018	8 A	23 A	13 A	16 A	60 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	-\$0.99 E	-\$0.98 E	-\$0.94 E	-\$0.93 E	-\$3.84 E
2019	-\$1.32 A	-\$0.72 A	-\$1.05 A	-\$1.11 E	-\$4.09 E
2018	-\$1.22 A	-\$0.76 A	-\$1.10 A	-\$0.92 A	-\$3.99 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	24.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/27/2020. The reports text is as of 01/28/2020.

Overview

Cayman Islands-based Theravance Biopharma is a biopharmaceutical company focused on the development of treatments for patients suffering from serious illnesses. The company's commercial infrastructure is focused primarily on the acute care setting. 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).

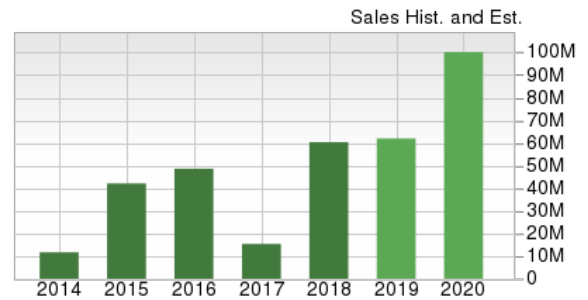
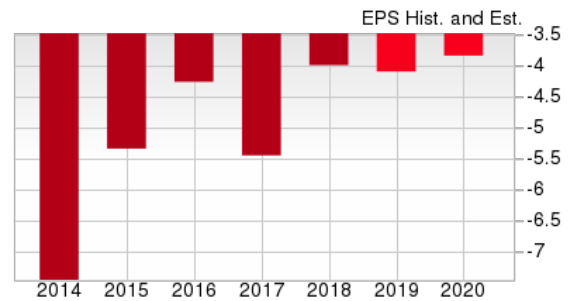
Theravance and Mylan have a collaboration for the development and commercialization of the drug. Mylan and Theravance are sharing US profits and losses received in connection with the commercialization of Yupelri. While Mylan gets 65% of the profits, Theravance gets 35%. Meanwhile, Theravance is entitled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

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

In 2018, the company generated revenues of \$60.3 million, up 291.6% year over year.



Reasons To Buy:

- ▲ **Share Price Outperformance:** Shares of Theravance have outperformed its industry in the past year. The stock has increased 4.6% compared to the industry's rise of 0.1%.
- ▲ **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. During the second quarter of 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. Both Janssen and Theravance will share profits in the United States and expenses related to a potential phase III program. 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 terms of 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.

- ▲ **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 a phase III study for patients with symptomatic neurogenic orthostatic hypotension (nOH).

Meanwhile, the company is developing TD-8236 (inhaled, lung-selective pan-JAK inhibitor) in a phase I study for the treatment of inflammatory lung diseases with minimal systemic exposure. Theravance is also developing TD-5202 (gut-selective irreversible JAK3 inhibitor) in a phase I study for addressing inflammatory intestinal diseases.

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 witnessing strong initial sales uptake.
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Reasons To Sell:

- ▼ **Dependence on Collaboration/Profit Sharing Revenues for Future Revenues:** 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. Competition could adversely affect the company's operating results.

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

Last Earnings Report

Theravance Q3 Loss In Line, Revenues Lag Estimates

Theravance Biopharma incurred a loss of \$1.05 per share in third-quarter 2019, in line with the Zacks Consensus Estimate. Meanwhile, the figure is narrower than the year-ago quarter's loss of \$1.10.

Total revenues of \$12.4 million in the quarter missed the Zacks Consensus Estimate of \$13 million. Revenues decreased 3.1% year over year, mainly due to lack of product sales following the divestiture of its only marketed drug Vibativ last November. Total revenues in the third quarter comprised collaboration revenues of \$8.8 million and \$3.6 million received from Mylan.

Quarter Ending **09/2019**

Report Date	Nov 05, 2019
Sales Surprise	-6.80%
EPS Surprise	0.00%
Quarterly EPS	-1.05
Annual EPS (TTM)	-4.01

Quarterly Details

Research & development expenses were \$52 million, down 1.3% from the year-ago quarter, primarily owing to lower employee-related expenses linked with the reduction in sales force.

Selling, general & administrative expenses escalated 16.9% to \$25.6 million due to higher external expenses and higher share-based compensation.

As of Sep 30, 2019, Theravance had cash, cash equivalents, marketable securities and restricted cash of \$352.9 million compared to \$396.1 million as of Jun 30, 2019.

2019 Outlook

For 2019, Theravance anticipates operating loss excluding non-cash share-based compensation to be in the range of \$200-\$210 million, narrowed from the previous guidance of \$210-\$230 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.

Announces Positive Early Data on TD-8236 – Sep 9

Theravance announced promising outcomes in the areas of safety and tolerability, pharmacokinetics and preliminary pharmacodynamic activity from a phase I study on its JAK inhibitor TD-8236. The candidate is being developed for the treatment of inflammatory lung diseases with minimal systemic exposure. Initial data from the study showed that in both regimens, TD-8236 was well tolerated with no evidence of local irritation or bronchoconstriction in the given patient population. Also, none of the patients discontinued the treatment and there were no serious adverse side effects reported.

Valuation

Theravance's shares are up 4.6% over the trailing 12-month period. Over the past year, the Zacks sub-industry is up 0.1% and the sector is up 4.2%.

The S&P 500 index is up 22.1% in the past year.

The stock is currently trading at 24.48X trailing 12-month sales per share, which compares to 3.28X for the Zacks sub-industry, 3.10X for the Zacks sector and 3.51X 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 27.36X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$28.00 price target reflects 26.22X trailing 12-month sales per share.

Industry Analysis Zacks Industry Rank: Top 42% (106 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	1.48 B	119.38 M	23.86 B	137.66 M	62.04 B	2.19 B
# of Analysts	6	2	13	4	8	4
Dividend Yield	0.00%	0.00%	1.81%	0.00%	1.57%	0.00%
Value Score	F	-	-	F	B	F
Cash/Price	0.22	0.28	0.04	0.58	0.07	0.35
EV/EBITDA	-7.78	-2.07	13.94	-2.45	92.93	-11.19
PEG Ratio	NA	1.15	2.00	NA	1.85	NA
Price/Book (P/B)	NA	3.14	3.25	NA	1.06	1.90
Price/Cash Flow (P/CF)	NA	10.60	13.46	NA	5.11	NA
P/E (F1)	NA	15.12	18.67	NA	11.13	NA
Price/Sales (P/S)	24.87	5.67	2.62	56.72	3.92	2.70
Earnings Yield	-14.69%	-14.58%	5.35%	-35.84%	8.98%	-15.00%
Debt/Equity	-2.71	0.03	0.72	-0.92	0.33	0.04
Cash Flow (\$/share)	-3.83	-0.59	6.92	-0.59	37.01	-2.75
Growth Score	D	-	-	F	B	F
Hist. EPS Growth (3-5 yrs)	NA%	8.54%	10.68%	NA	3.87%	NA
Proj. EPS Growth (F1/F0)	6.27%	16.33%	7.51%	10.43%	0.59%	-180.28%
Curr. Cash Flow Growth	-24.53%	13.56%	13.40%	-6.41%	-6.41%	64.78%
Hist. Cash Flow Growth (3-5 yrs)	-9.18%	8.38%	8.78%	-8.02%	35.89%	NA
Current Ratio	3.27	3.65	1.22	7.49	1.00	21.90
Debt/Capital	NA%	7.98%	42.92%	NA	24.73%	3.91%
Net Margin	-370.54%	-110.57%	11.39%	-2,116.81%	-58.50%	68.29%
Return on Equity	NA%	-67.23%	17.19%	NA	9.08%	42.34%
Sales/Assets	0.12	0.29	0.54	0.02	0.16	0.71
Proj. Sales Growth (F1/F0)	61.51%	9.10%	4.09%	NA	0.79%	-99.47%
Momentum Score	C	-	-	B	A	B
Daily Price Chg	-0.19%	-0.85%	-1.40%	-1.14%	0.43%	-1.77%
1 Week Price Chg	3.85%	-3.24%	-1.09%	-7.89%	-2.33%	-4.63%
4 Week Price Chg	1.20%	0.00%	-0.25%	-18.40%	-0.82%	-3.68%
12 Week Price Chg	53.49%	0.11%	3.64%	-15.61%	5.70%	-11.91%
52 Week Price Chg	-0.46%	-17.41%	18.08%	-28.51%	19.10%	-0.32%
20 Day Average Volume	236,509	178,387	1,615,215	699,888	2,639,966	414,354
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.15%	0.00%
(F1) EPS Est 4 week change	1.79%	0.00%	0.00%	0.00%	0.15%	0.00%
(F1) EPS Est 12 week change	1.41%	2.88%	-0.17%	12.12%	0.76%	-12.76%
(Q1) EPS Est Mthly Chg	3.09%	0.00%	0.00%	0.00%	8.33%	0.00%

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	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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