Zacks Small-Cap Research

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Antares Pharma, Inc. (ATRS - NASDAQ)

14% 2016 Topline Growth; October QST PDUFA

Based on our DCF model and a 15% discount rate, ATRS is valued at approximately $3.50 per share. Our model applies a range of probabilities for ANDA and sANDA approval and eventual commercialization.

Current Price (3/14/2017)	$2.59
Valuation	**$3.50**

OUTLOOK

Antares Pharma is a specialty pharmaceutical company that develops and commercializes self-administered parenteral pharmaceutical products and technologies. The company has developed strategic alliances with several leading pharmaceutical companies to use their drug delivery systems to enhance their partners' drug compounds and delivery methods.

ATRS develops and manufactures novel, pressure-assisted injectors, with and without needles, which allow patients to self-inject drugs. Currently, Antares has five marketed products and six products in development.

At the current price, we view Antares shares as undervalued, with substantial upside given the growth expected in current products and near-term launch of several others. We believe that expansion of their relationship with Teva and AMAG can provide additional upside to our valuation.

SUMMARY DATA

52-Week High	**2.74**
52-Week Low	**0.96**
One-Year Return (%)	**197**
Beta	**0.64**
Average Daily Volume (sh)	**966,150**
Shares Outstanding (mil)	**155.2**
Market Capitalization ($mil)	**402.1**
Short Interest Ratio (days)	**2.7**
Institutional Ownership (%)	**35.5**
Insider Ownership (%)	**19.7**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**26.0**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2017 Estimate	**N/A**
P/E using 2018 Estimate	**98.0**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Med-Biomed/Gene**

ZACKS ESTIMATES

Revenue

(In millions of US$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	$8.3 A	$14.4 A	$11.1 A	$11.8 A	$45.7 A
2016	$12.3 A	$12.2 A	$13.5 A	$14.2 A	$52.2 A
2017					$56.7 E
2018					$102.5 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2015	-$0.05 A	-$0.01 A	-$0.04 A	-$0.04 A	-$0.14 A
2016	-$0.05 A	-$0.04 A	-$0.04 A	-$0.03 A	-$0.16 A
2017					-$0.15 E
2018					$0.03 E

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What's New

Antares Pharma, Inc. (NASDAQ: ATRS) announced fourth quarter and full-year results on March 14, 2017, posting better than expected revenues and earnings. Fourth quarter revenues of $14.2 million rose 20% and surpassed our $12.8 million estimate. Net loss of $0.03 per share was a penny better than our forecasts. Gross margin rose both sequentially and over the prior year due to high-margin development revenue and operating margin improved on fixed cost leverage. For the 2016 fiscal year, total revenues were $52.2 million up 14.4% over 2015 totals. 2016 net loss of $0.16 per share compares to prior year loss of $0.14 per share.

Substantial progress was made on a number of fronts, most importantly on QST which provided positive topline data and now has a PDUFA data set for October 2017. Progress on several of partner Teva's products including generic epinephrine pen, teriparatide and exenatide is also a positive that should provide an increase in development revenue in 2017 and royalties in 2018. AMAG's Makena is also contributing to development revenue in 4Q:17 and will also continue to grow as a part of the revenue picture.

By segment, fourth quarter revenues of $14.2 million increased 20.3% on a year over year basis and by 5.3% sequentially. Antares' lead product, rheumatoid arthritis injection Otrexup, posted revenues of $4.1 million, up 25% over the prior year and revenues of $15.1 million rising 14.3% on a full-year basis. Needle-free injector devices were $1.7 million in the quarter and $5.5 million for the year expanding 101% and 30% respectively. Auto/pen injector devices declined by 20% in 4Q:16 to $3.9 million on a sequential decline in sumatriptan sales, but almost doubled for the year to $19.7 million. The brightest spot in the quarter was a strong increase in development revenue to $3.8 million due to manufacture and shipping of Makena injectors in the quarter representing a 334% rise. On a full-year basis, development revenue increased 15% helped by a combination of the epinephrine auto injector and the exenatide and teriparatide pen injectors. 2016 licensing revenue of $166 thousand fell on a year over year basis due to the amounts related to the terminated LEO Pharma licensing agreement. Royalty amounts of $1.5 million represent payments from Ferring, Meda Pharmaceuticals and Allergan for various injector and gel products.

Gross profit for the fourth quarter was $7.5 million which represents a margin of 53% and the highest gross margin since 3Q:15. For the year, gross profit of $23.4 million represented a 45% gross margin, declining over 2015 due to greater revenues from development projects which are largely executed at cost and prior year licensing revenues from a terminated relationship with LEO Pharma. R&D and SG&A both fell slightly in the fourth quarter to $5.6 and $6.2 million respectively resulting in an operating loss of $4.2 million. FY:16 R&D and SG&A totaled $47 million, essentially flat with FY:15.

As of December 31, 2016, Antares held approximately $27.7 million in cash on its balance sheet. We anticipate a near $6 million per quarter cash burn rate in development and operational costs suggesting sufficient cash to support operations through the end of the year. We believe that growth from current marketed products and increases in development revenue will offset much of the increase in expenses from the QST salesforce rollout.

Recent Highlights

- QST Milestones
  - Positive topline results
  - NDA filed with FDA December 2016
  - PDFUA date announced: October 20, 2017
- Partner Teva
  - Exenatide
    - Settlement with AstraZeneca for exenatide in US
    - Currently under FDA review
  - Teriparatide (Forteo) ANDA accepted by FDA
    - Teva may be considered first-to-file
    - Teva completed decentralized registration in EU & awaiting market authorization and patent clearance before commercialization
    - Decentralized filing in Europe concluded

- AMAG's subcutaneous Makena presented positive pharmacokinetic data
    - Anticipate first sales following expiration of IM exclusivity February 2018
    - Due to pain study failing to show superiority in the subcutaneous arm, AMAG has withdrawn its request for orphan designation

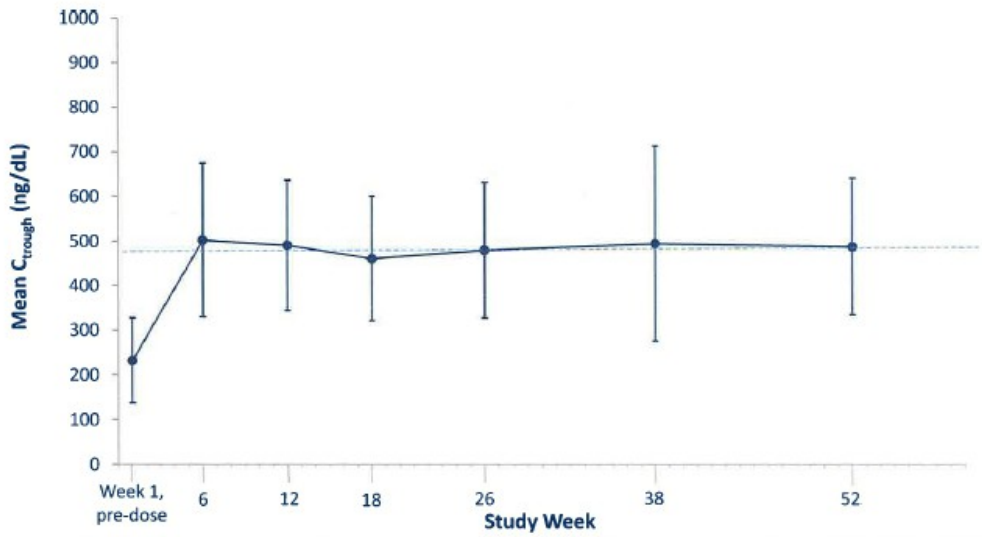
QST

Antares' principal opportunity is Quick Shot Testosterone (QST) which makes up the largest value of any product based on our NPV analysis. The filing of the NDA in February and the announcement of a PDUFA date are critical milestones supportive of our forecasts. Based on the FDA's PDUFA date in October 2017, we think Antares could launch the product in by January 2018. As we progress through the year, the company will begin to build up its administrative and sales force to prepare for this launch. Discussions with payors and PBMs have already taken place and we anticipate an acceleration of these talks following a positive outcome from the regulatory agency.

Before approval, Antares will build its QST sales team of national account managers to focus on the urology, endocrinology and primary care specialties. Based on management commentary, we anticipate that six senior level managers will be hired beginning mid-year. These individuals will begin to identify a 60-person sales team and then hire them following positive news from the FDA. The full team of six national account managers and 60 salespersons are expected to be all onboard by the beginning of 2018 with sales to follow after a short period of training.

The positive data from the trial, which we summarize below, illustrates the steady levels of testosterone over the period of the study. Additional positive data including 100% treatment compliance, over 99% painless injections and observed positive benefits from the treatment are strong arguments for physician acceptance and patient use.

Exhibit I – Mean Testosterone C_{trough} Over 52 Weeks[1]



Based on the progress achieved with QST, we increase our probability of ultimate sales for QST from 50% to 65% and increase our anticipated 2017 expenditures for the product from $10 million to $15 million to reflect a faster ramp up in the sales force compared to our previous expectations.

Valuation

We take a conservative view on timing, pricing and peak revenue potential for Antares' pipeline of products. The company currently has five products currently generating revenues and a very attractive portfolio of six additional devices that are currently in development. Two exciting development-stage opportunities include the quick shot testosterone injector that will be fully owned by the company, and the generic epinephrine injectable device, which has received substantial attention in recent months regarding the pricing of Mylan's branded EpiPen. Our analysis uses a discounted cash flow model that employs a variety of probabilities for each development product based on its individual characteristics and a 15% discount rate which we apply to product cash flows. We raise our estimates

[1] Source: 4Q:16 ATRS slide presentation

for success of QST from 50% to 65% based on progress acceptance of the NDA by the FDA and the provision of a PDUFA date and an increase in the upfront costs for sales force development. Our other estimates remain the same as in our initiation resulting in an increase in target price from $3.30 to $3.50 per share.

Summary

Antares reported a better than expected fourth quarter due to strong sales from its product portfolio and from development projects that set up 2017 for continued topline strength. FDA acceptance and the announcement of a PDUFA date in October of this year for QST are additional positives that add to progress on other programs in the company's injector portfolio.

We increase our probability estimates for QST success due to regulatory progress and increase development revenue estimates on continued efforts related to Makena, epi pen, exenatide and teriparatide. Some of this benefit is offset by higher sales expenses related to the QST launch, but overall, these changes increase our target.

We remind investors of the key parts of our thesis and the justification of our price target below.

Key reasons to own:

- **Growth and improving margin profile for Otrexup**
- **Approval and first sales of fully-owned QuickShot TRT expected in next year**
- **Launch of generic EpiPen with partner Teva in 2018**
- **Launch of generic injectable Byetta (exenatide) and Forteo (teriparatide) in 2018**
- **Launch of injectable Makena for pre-term birth in 2018**

In summary, we continue to see an attractive portfolio of injectors and development pipeline and are satisfied to see progress and milestone achievement across the board. Given the late stage of several NDAs, we anticipate a large jump in revenues next year as several new products generate new sales. Fixed cost leverage for currently marketed drugs offeres another aveune for earnings growth as Otrexup and sumatriptan reach critical mass and begin to deliver attractive margins. We update our price target based on progress on QST and partner development projects. Our price target increases to $3.50 per share.

PROJECTED FINANCIALS

Antares Pharma, Inc. - Income Statement

Antares Pharma, Inc.	2015 A	Q1 A	Q2 A	Q3 A	Q4 A	2016 A	2017 E	2018 E
Total Revenues	**$45,658**	**$12,319**	**$12,228**	**$13,479**	**$14,196**	**$52,222**	**$56,668**	**$102,523**
Cost of Product Sales	$12,925	$6,248	$5,217	$7,206	$5,238	$23,909	$24,000	$43,188
Cost of Development Revenue	$6,533	$528	$2,102	$827	$1,451	$4,908	$6,858	$3,900
Gross Profit	$26,200	$5,543	$4,910	$5,445	$7,507	$23,405	$25,811	$55,434
Product Gross Margin	*57.4%*	*45.0%*	*40.2%*	*40.4%*	*52.9%*	*44.8%*	*45.5%*	*54.1%*
R&D	$19,732	$5,648	$3,948	$5,958	$5,572	$21,127	$10,000	$10,000
SG&A	$26,931	$7,603	$7,015	$5,623	$6,155	$26,395	$40,000	$41,200
Other expenses	$0	$0	$0	$0	$0	$0	$0	$0
Operating Income	($20,462)	($7,708)	($6,052)	($6,136)	($4,220)	($24,116)	($24,190)	$4,234
Operating Margin	*-44.8%*	*-62.6%*	*-49.5%*	*-45.5%*	*-29.7%*	*-46.2%*	*-42.7%*	*4.1%*
Total Other Income	($22)	$52	($9)	$15	($181)	($122)	$0	$0
Pre-Tax Income	($20,484)	($7,656)	($6,061)	($6,121)	($4,401)	($24,239)	($24,190)	$4,234
Taxes & Other	$175	$0	$0	$0	$100	$100	$0	$0
Tax Rate	*-1%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	($20,659)	($7,656)	($6,061)	($6,121)	($4,501)	($24,339)	($24,190)	$4,234
Reported EPS	**($0.14)**	**($0.05)**	**($0.04)**	**($0.04)**	**($0.03)**	**($0.16)**	**($0.15)**	**$0.03**
Shares Outstanding	146,594.1	154,858.1	154,936.1	155,060.8	155,111.4	154,992.1	157,491.4	160,168.7

Source: Company Filing // Zacks Investment Research, Inc. Estimates

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