Zacks Small-Cap Research

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Titan Pharmaceuticals, Inc. (TTNP-NASDAQ)

$10 Million Debt Facility Accessed to Support Development Programs.

Based on our DCF model and a 15% discount rate, TTNP is valued at approximately $6.00 per share. We currently do not include any contribution from the ropinirole or triiodothyronine programs or for sales of Probuphine outside the US and Canada. Valuation for pre-clinical programs will be included upon commencement of clinical trials.

Current Price (8/9/17)	$1.55
Valuation	**$6.00**

OUTLOOK

Titan Pharmaceuticals launched its first product, Probuphine, in June 2016 through its partner Braeburn Pharmaceuticals. The company is currently in the process of obtaining approval in Europe and identifying a partner who will commercialize Probuphine outside the US and Canada.

Currently, two other candidates are in the development pipeline which use Titan's proprietary ProNeura drug delivery system. Consisting of ethylene-vinyl acetate and a drug substance, ProNeura is a novel approach to drug delivery that benefit from long-duration slow release and controlled substance programs.

Titan's development products include a treatment for Parkinson's Disease (ropinirole) and hypothyroidism (T3) which are currently being prepared to launch clinical studies.

SUMMARY DATA

52-Week High	**$6.40**
52-Week Low	**$1.45**
One-Year Return (%)	**-69.8**
Beta	**1.51**
Average Daily Volume (sh)	**158,867**
Shares Outstanding (mil)	**21.2**
Market Capitalization ($mil)	**$32.9**
Short Interest Ratio (days)	**4.94**
Institutional Ownership (%)	**0.3**
Insider Ownership (%)	**22.5**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.0**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**9.2**
P/E using 2016 Estimate	**N/A**
P/E using 2017 Estimate	**N/A**
Zacks Rank	**N/A**

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

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	$0.0 A	$15.0 A	$0.0 A	$0.0 A	$15.1 A
2017	$0.0 A	$0.1 A	$0.2 E	$0.4 E	$0.7 E
2018					$4.9 E
2019					$10.9 E

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	-$0.09 A	$0.55 A	-$0.12 A	-$0.11 A	$0.24*A
2017	-$0.14 A	-$0.16 A	-$0.12 E	-$0.12 E	-$0.54 E
2018					-$0.38 E
2019					-$0.14 E

*Quarterly totals do not sum to annual due to mix of diluted and undiluted shares

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WHAT'S NEW

Titan Reports Second Quarter 2017 Financial and Operational Results

Titan Pharmaceuticals, Inc. (NASDAQ: TTNP) reported second quarter 2017 results on August 9, 2017 in conjunction with the filing of its Form 10-Q. Total revenues, which consisted entirely of Probuphine royalties were $77,000, which were below our forecasts of $100,000. This compares to revenues of $4,000 in 2Q:16 and $40,000 in the prior quarter. R&D expenses of $2.5 million rose 43% over the prior year due to expenses related to the ropinirole and other ProNeura development programs. G&A of $1.2 million was essentially flat compared to the prior year. Net loss was ($3.5) million or ($0.16) per share in 2Q:17, compared to net income of $11.9 million or $0.55 per share in 2Q:16, which was dominated by the approval-related milestone payment from Braeburn for Probuphine.

Cash burn for the first quarter was ($2.5) million, below the $13.5 million cash contribution in the second quarter of 2016. The cash balance was $8.4 million at the end of the second quarter, declining sequentially from $10.9 million. After the end of the quarter, Titan closed on $7.0 million in debt financing, adding to its cash levels.

Despite the full commercial launch of Probuphine by Braeburn in the first quarter, sales have only increased a modest amount since the 2Q:16 launch of the implant. A difficult reimbursement environment and slow access to third party payment systems have impeded faster growth. Despite the difficulties on the payor side, indications from patients completing the first six months of treatment is positive as most patients on Probuphine have elected to continue with the therapy following their initial treatment. Braeburn continues to develop its efforts to support the Probuphine supply chain including the use of now two specialty pharmacies approved by the DEA in order to distribute the product.

Second quarter revenues were lower than expected due to the continued effort required to develop the distribution network, gain access to formularies, obtain preapprovals and complete paperwork to obtain reimbursement on third party payor systems. Expenses were higher than our estimates due to greater external research and development for product development programs. The pace of sales growth has been slow relative to our initial expectations, however, we believe that Braeburn is making progress and the confluence of increased patient and physician awareness and working through the mechanics of reimbursement will ultimately result in Probuphine achieving its potential.

Recent and Upcoming Events

- Probuphine
  - EMA confirmed eligibility for review and approval under the centralized procedure
  - EMA provided pediatric indication waiver
  - Anticipate 4Q:17 filing of a Marketing Authorization Application (MAA) in EU
  - Target finalizing agreement with EU and ex-US commercialization partners prior to MAA filing
  - EMA has provided pediatric indication waiver which simplifies MAA process
  - Representatives from two Ireland and the UK appointed to report on progress to EMA
- Titan granted Small Manufacturing Entity (SME) status in Europe, which provides financial incentives
- Ropinirole
  - IND submitted January 2017
  - Additional information submitted regarding final release test data on implant and applicator with review date of August 13, 2017
  - Phase I/II PK studies expected to begin in 3Q:17
  - Clinical sites identified
  - Trial will enroll Parkinson's Disease patients receiving adjunctive therapy with oral ropinirole

- Triiodothyronine (T3)
  - Final formulation optimization studies currently in process
  - Completing non-clinical evaluation of its re-formulated T3 implant
  - Pre-IND review with the FDA anticipated 3Q:17
- New Candidates being evaluated for ProNeura
  - Tenofovir and emtricitabine for pre-exposure prophylaxis against HIV acquisition
  - Anti-malarial agents
    - Entered into Cooperative Research and Development Agreement with Reed Army Institute of Research (WRAIR) and Southwest Research Institute (SwRI)
    - Collaboration will evaluate the development of ProNeura-based implants for a long-term regimen in the prevention of malaria
  - Liraglutide for Type 2 diabetes
  - Oxytocin for autism spectrum disorder

Loan Agreement

Following the end of the second quarter, Titan entered into a loan agreement with Horizon Technology Finance for up to $10 million in loans over the next four years. $7.0 million of the total was executed in July, yielding net proceeds of $6.8 million. The remaining $3.0 million of borrowing may be accessed upon certain revenue, partnership or market capitalization achievements.

Interest on the loan is LIBOR + 8.4%, with a floor of 9.5%. The loan requires only interest payments until December 18, 2018, after which, interest and principal payments will be made. Early payment and final payment fees and penalties apply, ranging from 2% to 5%. 280,612 warrants were attached to the debt with an exercise price of $1.96, which may be adjusted if new equity financing occurs.

Management Change at Braeburn

On June 5th, Titan's partner commercializing Probuphine, announced that Behshad Sheldon would step down as CEO and that Mike Derkacz would assume the role. We believe that the slow pace of Probuphine sales may have been in part responsible for the change in management. Mike's experience has been in launching new products, creating effective teams and focusing organizational leadership at pharmaceutical firms such as Teva, Cephalon and GlaxoSmithKline. Over the last six years, Mike led the strategic development of the CNS and Pain Therapeutic Areas, providing a valuable background to support the development of Probuphine and other products at Braeburn Pharmaceuticals. We believe that his background provides the experience needed to drive growth for Probuphine.

Our Estimates

Royalty revenues from Braeburn's Probuphine sales accelerated off of a small base in the second quarter producing $77 thousand in royalty revenues. While Titan's partner has aligned numerous payors, added two specialty pharmacies to expand the distribution network and steadily increased health care providers prescribing Probuphine, a challenging reimbursement environment has held back growth relative to our forecasts. Our model continues to exclude any target price contribution from ropinirole or the T3 implant until clinical trials have begun.

Conclusion

Titan's post-2Q estimated balance of ~$13 million in cash is anticipated to provide sufficient capital to fund operations over the next year based on company guidance and our estimates. The recent loan agreement with Horizon can provide a small amount of additional capital if needed assuming certain milestones are met.

Our valuation analysis applies a probability of approval for compounds in development and at each stage of clinical trials. Prior to Phase I testing, however, we do not apply any probability of approval. Upon commencement of trials for ropinirole and T3 implant, we will begin to include a valuation for each based on our estimates for eventual commercialization. Currently there are two new products and ex-US sales of Probuphine that we anticipate adding to our DCF model, and upon confirmation of these programs we will include a valuation component for each.

While we were hoping to see a faster ramp-up in sales, we do understand that the process for training, formulary inclusion and distributing a controlled substance take some time to develop properly and to obtain the necessary approvals. Our updated expectations only call for a modest increase in royalty revenues throughout 2017, which are included in our estimates. We maintain our valuation target at $6 to reflect the current outlook for Probuphine royalty revenue growth but exclude the potential upside from Probuphine sales outside North America as well as from ropinirole and T_3. We will add a component for these assets when we reach the appropriate milestones.

PROJECTED FINANCIALS

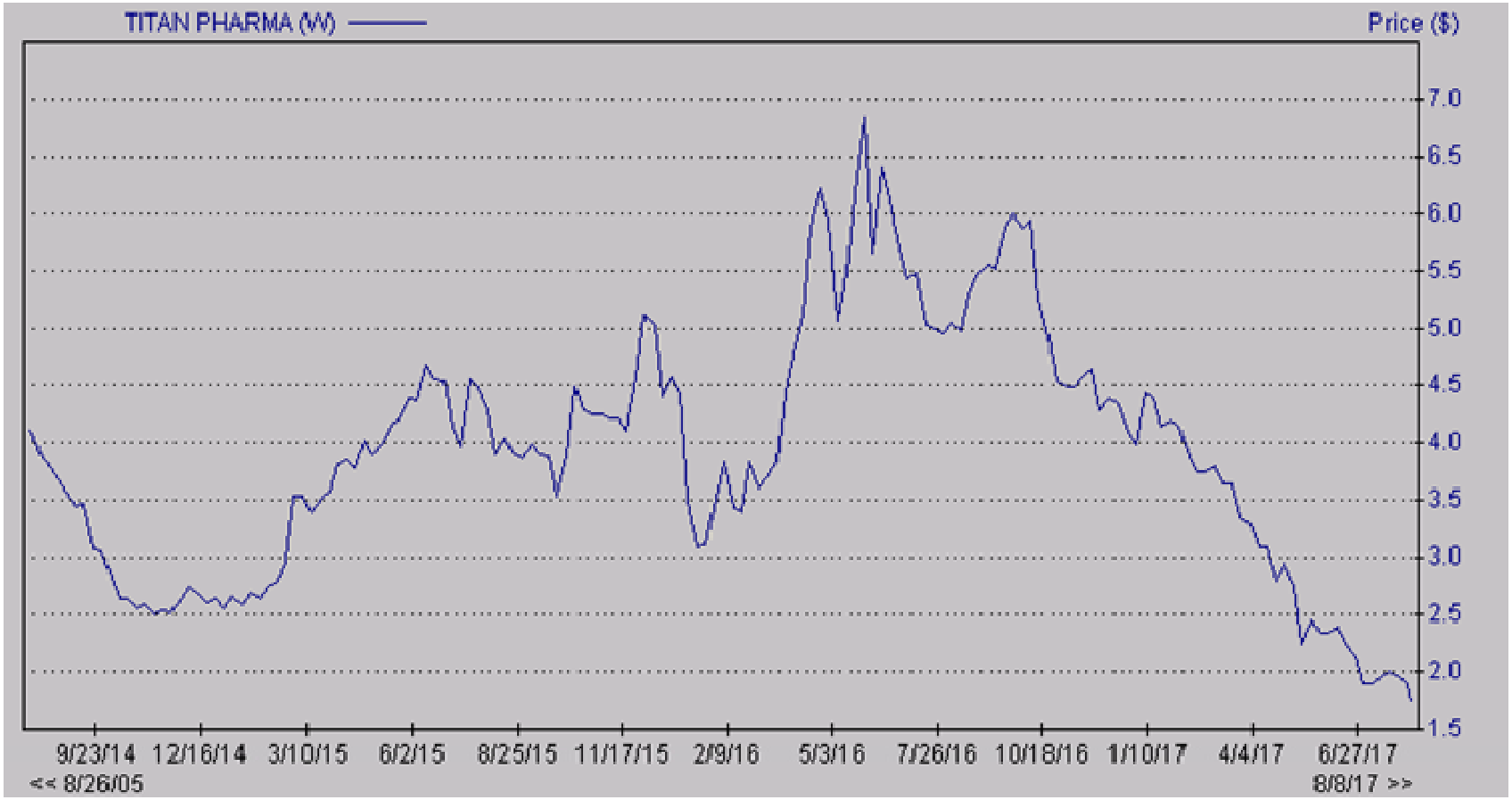
Titan Pharmaceuticals, Inc. - Income Statement

Titan Pharmaceuticals, Inc.	2016 A	Q1 A	Q2 A	Q3 E	Q4 E	2017 E	2018 E	2019 E
Probuphine Royalty	**$0.1**	**$0.0**	**$0.1**	**$0.2**	**$0.4**	**$0.7**	**$4.9**	**$10.9**
YOY Growth	-	-	*1825.0%*	-	-	*1003.1%*	*583.4%*	*123.3%*
Licensing & Grant Revenue	**$15.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**
Total Revenues	**$15.1**	**$0.0**	**$0.1**	**$0.2**	**$0.4**	**$0.7**	**$4.9**	**$10.9**
YOY Growth	*801.6%*	*-100.0%*	*1874.2%*	-	-	*-95.2%*	*583.4%*	*123.3%*
R&D	$6.1	$2.1	$2.5	$1.6	$1.5	$7.7	$7.0	$7.5
G&A	$4.6	$1.4	$1.2	$1.2	$1.2	$4.9	$6.5	$6.8
Operating Income	$4.3	($3.4)	($3.6)	($2.6)	($2.3)	($12.0)	($8.6)	($3.4)
Operating Margin	*28.8%*	-	*-4702.6%*	*-1300.0%*	*-575.0%*	*-1667.8%*	*-175.5%*	*-30.7%*
Total Other Income	$0.8	$0.4	$0.2	($0.0)	$0.9	$0.0	$0.0	$0.0
Pre-Tax Income	$5.1	($3.0)	($3.5)	($2.6)	($2.9)	($12.0)	($8.6)	($3.4)
Taxes & Other	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	$5.1	($3.0)	($3.5)	($2.6)	($2.9)	($12.0)	($8.6)	($3.4)
Net Margin	-	-	-	-	-	-	-	-
Reported EPS	**$0.24**	**($0.14)**	**($0.16)**	**($0.12)**	**($0.13)**	**($0.54)**	**($0.38)**	**($0.14)**
YOY Growth	*-142.5%*	*55.4%*	*-129.9%*	*-0.6%*	*24.5%*	*-325.1%*	*-28.7%*	*-62.8%*
Weight Ave. Shares Out	21.5	21.4	21.2	21.2	21.6	22.2	22.4	23.5

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

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