Zacks Small-Cap Research

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Antares Pharma, Inc. (ATRS - NASDAQ)

Development Products on Track, Margins Improving, Target Price Up

Based on our DCF model and a 15% discount rate, ATRS is valued at approximately $3.75 per share. Our model applies a range of probabilities for development projects seeking ANDA and sANDA approval and eventual commercialization.

Current Price (8/9/2017)	$3.14
Valuation	**$3.75**

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 using Antares' 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 branded and generic pharmaceutical products. Currently, Antares has seven injectors that are either marketed or in development.

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

SUMMARY DATA

52-Week High	**3.37**
52-Week Low	**1.01**
One-Year Return (%)	**193**
Beta	**0.38**
Average Daily Volume (sh)	**1,432,215**
Shares Outstanding (mil)	**156.4**
Market Capitalization ($mil)	**491.1**
Short Interest Ratio (days)	**4.16**
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	**72.2**
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)
2016	$12.3 A	$12.2 A	$13.5 A	$14.2 A	$52.2 A
2017	$12.0 A	$13.4 A	$14.3 E	$14.4 A	$54.1 E
2018					$98.2 E
2019					$177.8 E

Earnings per Share

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	-$0.05 A	-$0.04 A	-$0.04 A	-$0.03 A	-$0.16 A
2017	-$0.03 A	-$0.02 A	-$0.04 E	-$0.05 E	-$0.14 E
2018					$0.04 E
2019					$0.39 E

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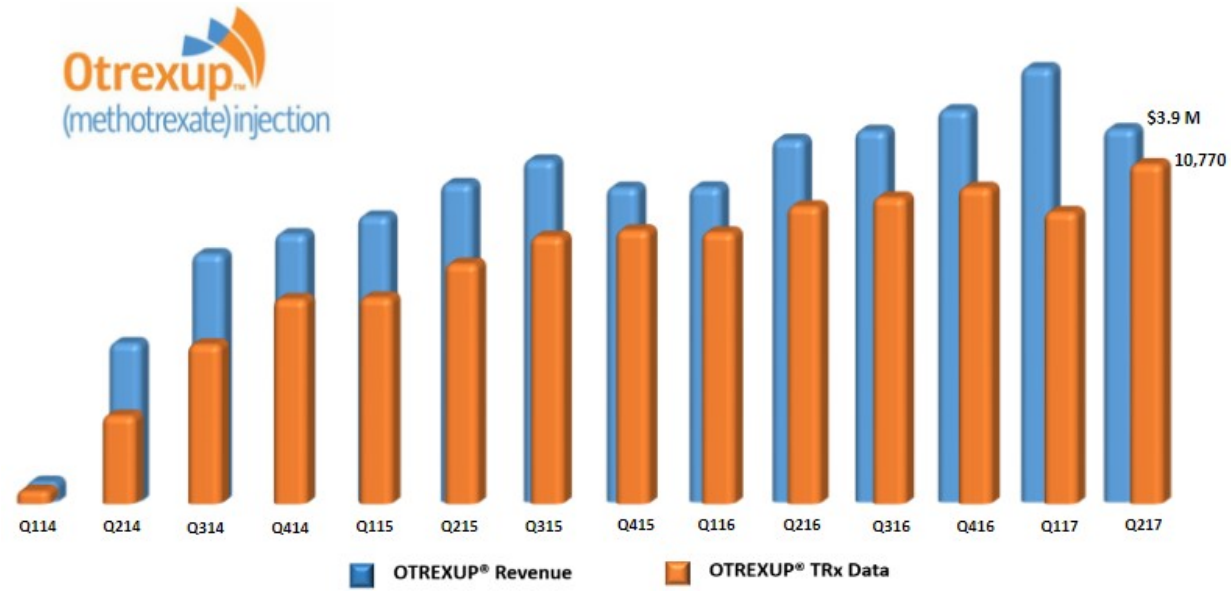
What's New

Second Quarter Operational and Financial Results

Antares Pharma, Inc. (NASDAQ: ATRS) announced second quarter results on August 8, 2017, achieving 10% revenue growth and a loss of ($0.02) per share. Second quarter revenues of $13.4 million compare to our $14.1 million estimate, which had anticipated higher product sales. Net loss of ($0.02) per share was ahead of our ($0.03) estimate. Gross margin was up 18 percentage points to 58.1% compared to 40.2% in 2Q:16 due to a higher proportion of higher margin non-product sales, higher license revenue and better margins on Otrexup and sumatriptan.

The second quarter provided evidence of increasing market share for Antares' most important products, with the sumatriptan auto injector achieving 26% market share in 2Q:17, up from 21% in 1Q:17. The most recent weekly data ending July 21 indicated a market share of 29%, illustrating continued share gains and the benefit of Teva's relationships with Walgreens and CVS. Otrexup prescriptions were up 16% sequentially and 14% over the prior year with total sales up 3.0%, however average price declined as Antares renegotiated some agreements to improve formulary coverage.

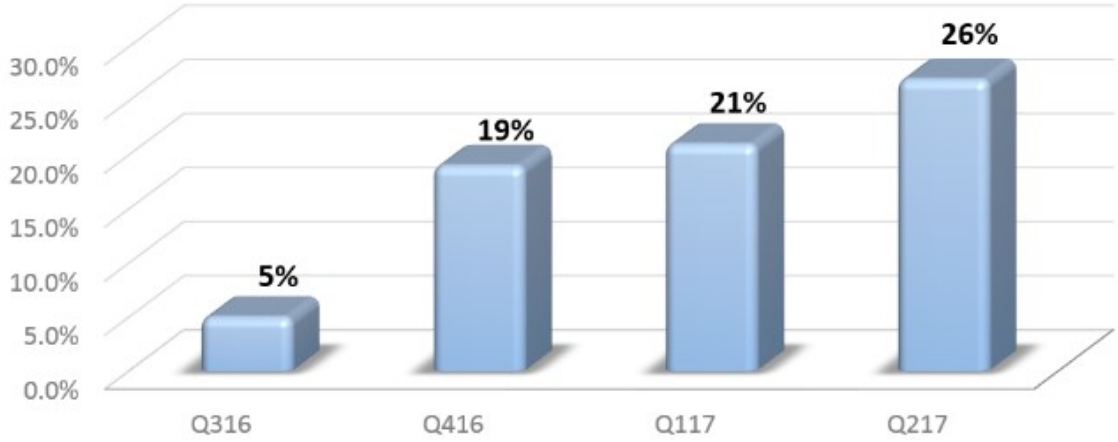
Exhibit I – Otrexup Revenue and Prescriptions[1]



Auto and Pen Injector sales were $2.4 million, down from $3.9 million in the prior year, a 38% fall attributable to the reduction in pre-launch quantities of Teva's epinephrine pen partially offset by sumatriptan injector sales.

[1] Graphic sourced from Antares' 2Q:17 slide presentation

Exhibit II – Sumatriptan Auto Injector Market Share[2]



Needle-free injector device sales rose 2% to $1.0 million in the quarter. Development revenue rose by 47% to $4.8 million due to the Makena auto injector product, and Teva's exenatide and teriparatide pen injectors offset by a reduction in revenue related to the epinephrine auto injector. 2Q:17 licensing revenue rose to $1.0 million as deferred revenues were recognized and royalty revenues were a modest $265,000, expanding 14% on a year over year basis.

Gross profit for the first quarter was $7.8 million which represents a margin of 58% as both development revenue margin and product margin improved and as the company recognized an additional $1.0 million in deferred licensing revenues. Continued increases in margin structure for both Otrexup and sumatriptan contributed to product gross margins, which increased to 50.5%. R&D declined by 20% compared to 2Q:16 as efforts to develop QST wound down. SG&A was up 5% on a year over year basis to $7.4 million as expenses related to prelaunch sales and marketing for XYOSTED were recognized.

As of Jun 30, 2017, Antares held approximately $43.4 million in cash on its balance sheet. We anticipate a $6 to $7 million per quarter cash burn rate in development and operational costs suggesting sufficient cash to support operations until 2019. 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.

Antares completed a debt deal with Hercules Capital on June 6 in a five year agreement that will provide up to $35 million over the period of the loan. $25 million of the total was closed in June and the remaining $10 million can be accessed after achieving approval-related milestones. Payments are interest only for the first two years, but may be extended for another two and a half years if certain goals are met. Otherwise, interest and principal will be paid in years three, four and five. The additional funding will help launch and commercialize XYOSTED.

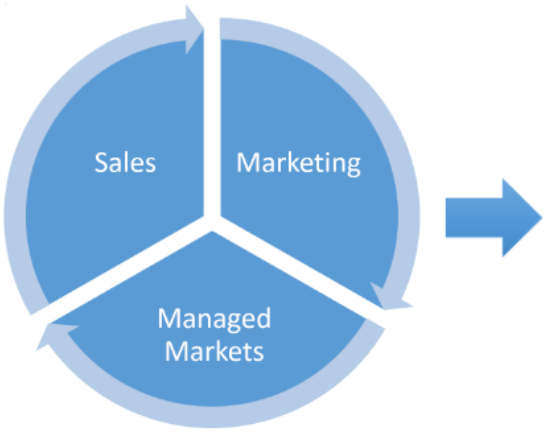
New Products

Antares is developing plans for a successful launch of XYOSTED which not only include the financing discussed above, but also require a strategy for interacting with payors. Other efforts including pricing, third party access, trade negotiation and recruitment of a sales force closer to the October 20, 2017 PDUFA date. Antares anticipates building a 60 person sales force, which may grow if new territories and new markets indicate increased demand.

As of the date of this report, seven regional sales managers have been hired, who have interacted closely with representatives from health plans and PBMs in order to better understand reimbursement and formulary inclusion in the testosterone market. Antares will target the top 40 PBMs, and national regional and government payors in 4Q:17 to support the launch of its product. Antares, through its experience launching Otrexup, has recognized the importance of providing an access rebate in the first months of launch to increase penetration into key formularies as well as offering co-pay coupons to stimulate demand. Other efforts to improve the initial launch center around easing the patient and physician burden by providing benefit investigation and prior authorizations.

[2] Data provided by Symphony Health Solutions and included in Antares' 2Q:17 slide presentation.

Exhibit III – XYOSTED Launch Planning[3]



PDUFA Date: October 20, 2017

Key Next Steps:

- Finalization of WAC price
- Finalization of Payer Access Strategy and Prioritization
- Finalization of all Marketing Assets and Activities
- Distribution Strategy and Trade Negotiations
- Sales Representative recruitment (pending FDA approval)

The company has also conducted advisory meetings and focus group seminars with key opinion leaders in urology and endocrinology to understand the marketplace and the needs of the medical community and patients. Quick shot testosterone can potentially take a dominant position in the market for testosterone deficiency and given its particular benefits, may capture share from competitors with injectable and topical products.

Other new developments include progress in Europe with Teva's generic Forteo (teriparatide) pen-injector. At the end of last year, teriparatide was successfully registered under the decentralized procedure and was filed in 17 European countries, which represent the majority of markets in the EU. The product is still under active review at the FDA.

Recent Highlights

- QST Milestones
  - PDFUA date of October 20, 2017
  - Positive topline results
  - Begin recruiting sales force near PDUFA date
  - Potential launch in late 4Q:17 or early 1Q:18
- Partner Teva
  - Exenatide
    - Settlement with AstraZeneca for exenatide in US
    - Currently under FDA review with a settlement launch date of October 15, 2017
  - Teriparatide (Forteo) ANDA accepted by FDA
    - Teva may be considered first-to-file with 180 day exclusivity pending approval
    - Teva completed decentralized registration in EU & awaiting market authorization and patent clearance before commercialization
  - Epinephrine Pen
    - Launch guidance advanced to early 2018
    - $20 million in devices launched to date
- AMAG's subcutaneous Makena presented positive pharmacokinetic data
  - Anticipate first sales following expiration of IM exclusivity February 2018
  - Antares is experiencing strong development revenue from Makena auto-injectors as we move closer to the anticipated launch date

QST (XYOSTED)

Antares' principal opportunity is Quick Shot Testosterone (QST) (XYOSTED) 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

[3] Graphic sourced from Antares' 2Q:17 slide presentation

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 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 a surge in recruiting of the sales force 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 sales team and then hire them following positive news from the FDA.

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 (XYOSTED) that will be fully owned by the company, and the generic epinephrine injectable device. Our analysis uses a discounted cash flow model that employs 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 target price to $3.75 per share due to continued progress on milestones.

Summary

Antares reported a near 10% increase in revenues for its second quarter as growth in Otrexup, Development Revenue and Licensing Revenue was offset by lower Auto/Pen Injector Device sales. Positives include improved gross margin and higher operating margin that drove a 2 cent improvement in earnings.

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 are launched. Fixed cost leverage for currently marketed injectors offers another aveune for earnings growth as Otrexup and sumatriptan reach critical mass and begin to deliver attractive margins. We increase our price target to $3.75 per share.

PROJECTED FINANCIALS

Antares Pharma, Inc. - Income Statement

Antares Pharma, Inc.	2016 A	Q1 A	Q2 A	Q3 E	Q4 E	2017 E	2018 E	2019 E
Total Revenues	**$52,222**	**$12,007**	**$13,416**	**$14,258**	**$14,380**	**$54,061**	**$98,177**	**$177,820**
Cost of Product Sales	$23,909	$5,448	$3,633	$5,977	$6,016	$21,074	$39,654	$62,471
Cost of Development Revenue	$4,908	$771	$1,983	$1,161	$1,210	$5,126	$2,640	$1,760
Gross Profit	$23,405	$5,788	$7,800	$7,120	$7,154	$27,862	$55,883	$113,589
Product Gross Margin	*44.8%*	*48.2%*	*58.1%*	*49.9%*	*49.8%*	*51.5%*	*56.9%*	*64.9%*
R&D	$21,127	$3,086	$3,160	$2,500	$2,500	$11,246	$10,000	$10,000
SG&A	$26,395	$7,467	$7,360	$11,000	$12,000	$37,827	$38,962	$40,131
Other expenses	$0	$0	$0	$0	$0	$0	$0	$0
Operating Income	($24,116)	($4,766)	($2,720)	($6,380)	($7,346)	($21,211)	$6,921	$63,458
Operating Margin	*-46.2%*	*-39.7%*	*-20.3%*	*-44.7%*	*-51.1%*	*-39.2%*	*7.0%*	*35.7%*
Total Other Income	($122)	$30	($120)	$0	$0	($90)	$0	$0
Pre-Tax Income	($24,239)	($4,736)	($2,840)	($6,380)	($7,346)	($21,301)	$6,921	$63,458
Taxes & Other	$100	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	($24,339)	($4,736)	($2,840)	($6,380)	($7,346)	($21,301)	$6,921	$63,458
Reported EPS	**($0.16)**	**($0.03)**	**($0.02)**	**($0.04)**	**($0.05)**	**($0.14)**	**$0.04**	**$0.39**
Shares Outstanding	154,992.1	155,215.0	155,926.1	156,877.3	157,834.3	156,463.2	159,123.1	161,828.2

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

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