Zacks Small-Cap Research

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Antares Pharma, Inc. (ATRS - NASDAQ)

Milestones Continue to Align for Multiple 2018 Launches

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 development projects seeking ANDA and sANDA approval and eventual commercialization.

Current Price (5/11/2017)	$2.73
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	**3.24**
52-Week Low	**0.79**
One-Year Return (%)	**229**
Beta	**0.61**
Average Daily Volume (sh)	**1,340,188**
Shares Outstanding (mil)	**155.9**
Market Capitalization ($mil)	**425.7**
Short Interest Ratio (days)	**2.4**
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	**81.3**
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	$14.1 E	$14.3 E	$14.4 A	$54.7 E
2018					$102.5 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	-$0.03 E	-$0.04 E	-$0.05 E	-$0.16 E
2018					$0.03 E
2019					$0.36 E

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What's New

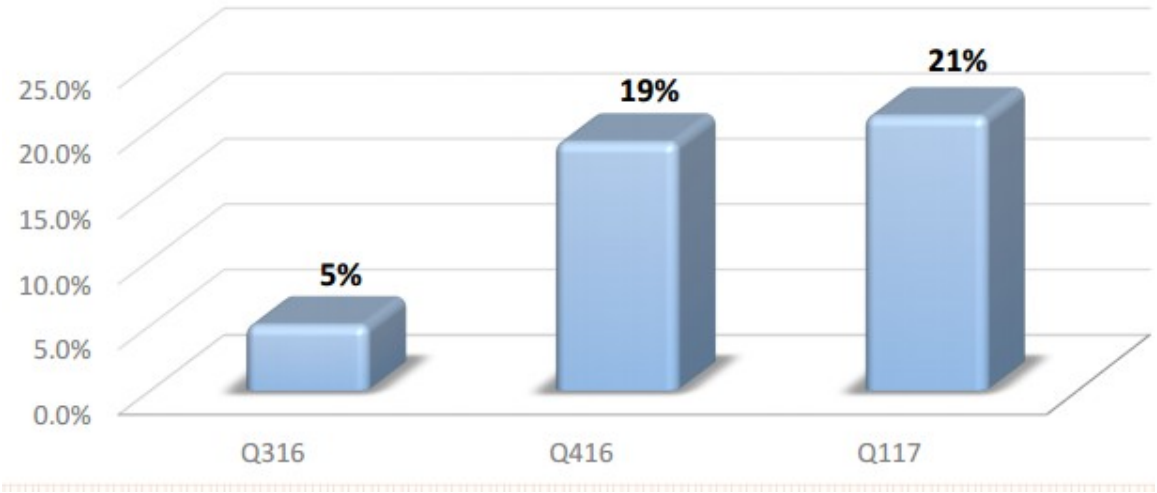
First Quarter Operational and Financial Results

Antares Pharma, Inc. (NASDAQ: ATRS) announced first quarter results on May 10, 2017, posting lower than expected revenues and in-line earnings. First quarter revenues of $12.0 million declined 2.5% and compare to our $13.9 million estimate. Net loss of $0.03 per share matched our forecasts. Gross margin rose compared to 1Q:16 to 48.2% on the recognition of Otrexup deferred revenue, but fell sequentially on lower development revenue. The main difference between our revenue estimates and actuals was lower needle free and development revenues.

Antares announced current status of QuickShot Testosterone (now also known as XYOSTED) which had its NDA accepted by the FDA generating an October 20, 2017 PDUFA date. A favorable nod by the agency could support an early 2018 launch of the testosterone injection product. A supplemental NDA was filed by Antares' partner AMAG Pharmaceuticals for the Makena subcutaneous auto-injector in April. AMAG expects a 4Q:17 response from the FDA on this candidate and a subsequent launch. 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.

First quarter revenues of $12.0 million compare to sales of $12.3 million in the prior year and $14.2 million in the prior quarter. Antares' lead product, rheumatoid arthritis injection Otrexup, posted revenues of $4.6 million, up 38% over 1Q:16 due to the recognition of product shipped to distributors in prior periods. Absent the accounting adjustment, Otrexup revenues were essentially flat. Auto and Pen Injector sales were $4.1 million, down from $6.0 million in the prior year, a 31% fall attributable to the reduction in pre-launch quantities of Teva's epinephrine pen partially offset by Sumatriptan injector sales. Sumatriptan has made substantial progress since its June 2016 launch and has achieved a 26% market share by the end of April 2017.

Exhibit I – Sumatriptan Auto Injector Market Share[1]



Needle-free injector device sales fell 12% to $1.4 million in the quarter. Revenue in this segment is primarily generated from Ferring Pharmaceuticals which sells hGH product in Europe, Asia and the US and is not a core focus for Antares. Development revenue rose by 48% to $1.6 million due to activities on behalf of the exenatide and teriparatide pen injector products and the Makena auto injector product, offset by a reduction in revenue from Teva related to the epinephrine auto injector. 1Q:17 licensing revenue of $19 thousand fell from $51 million in 1Q:16 and royalty amounts of $330 thousand were essentially flat with prior year levels.

Gross profit for the first quarter was $5.8 million which represents a margin of 48% an increase over the 45% hurdle in 1Q:16. R&D declined sharply over the same period in 2016 as efforts to develop QST wound down and the related NDA was filed in the prior quarter. SG&A was down modestly on a year over year basis to $7.5 million as lower personnel costs and share-based compensation related to the company's prior CEO disappeared.

[1] Data provided by Symphony Health Solutions and included in Antares 1Q:17 slide presentation.

As of March 31, 2017, Antares held approximately $23.7 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 into early 2018. 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.

New Developments

The trade name XYOSTED was selected for the QuickShot Testosterone product and publicly announced for the first time on the first quarter call. The name was selected to resonate with both physicians and patients. The first two letters "XY" represent the male chromosome and the target market for the product and the last four letters represent the acronym name of the Phase 3 clinical trial which was conducted in 2015 and 2016.

The goal for initial launch will be to initially hire district managers prior to the October PDUFA to identify sales candidates and develop messaging for the sales process. Shortly after a favorable announcement from the FDA on XYOSTED, hiring of the sales force will take place, targeting 60 reps that will target primary care physicians, urologists and endocrinologists.

Antares is currently consulting with third party payors and payor advisory boards to refine pricing and formulary positioning. 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, and may capture share from the injectable and topical administration competitors.

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 is broader than the five countries indicated in Teva's previous commentary.

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 (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 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 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 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, 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 probabilities for each development product based on its individual characteristics and a 15% discount rate which we apply to product cash flows. We maintain our target price of $3.50 per share.

Summary

Antares reported a slight decline in revenues for its first quarter as growth in Otrexup and Development Revenue was offset by declines in the other segments. Positives include improved gross margin and higher net margin that resulted in 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 drugs offers another aveune for earnings growth as Otrexup and sumatriptan reach critical mass and begin to deliver attractive margins. We maintain our price target increases to $3.50 per share.

PROJECTED FINANCIALS

Antares Pharma, Inc. - Income Statement

Antares Pharma, Inc.	2016 A	Q1 A	Q2 E	Q3 E	Q4 E	2017 E	2018 E	2019 E
Total Revenues	**$52,222**	**$12,007**	**$14,090**	**$14,258**	**$14,380**	**$54,735**	**$102,523**	**$177,820**
	14.4%	-2.5%	15.2%	5.8%	1.3%	4.8%	87.3%	73.4%
Cost of Product Sales	$23,909	$5,448	$6,000	$6,000	$6,000	$23,448	$42,620	$65,006
Cost of Development Revenue	$4,908	$771	$1,690	$1,755	$1,788	$6,004	$3,900	$2,600
Gross Profit	$23,405	$5,788	$6,400	$6,503	$6,593	$25,283	$56,003	$110,214
Product Gross Margin	*44.8%*	*48.2%*	*45.4%*	*45.6%*	*45.8%*	*46.2%*	*54.6%*	*63.4%*
R&D	$21,127	$3,086	$2,500	$2,500	$2,500	$10,586	$10,000	$10,000
SG&A	$26,395	$7,467	$9,000	$11,000	$12,000	$39,467	$40,651	$41,871
Other expenses	$0	$0	$0	$0	$0	$0	$0	$0
Operating Income	($24,116)	($4,766)	($5,100)	($6,997)	($7,908)	($24,770)	$5,351	$58,344
Operating Margin	*-46.2%*	*-39.7%*	*-36.2%*	*-49.1%*	*-55.0%*	*-45.3%*	*5.2%*	*32.8%*
Total Other Income	($122)	$30	$0	$0	$0	$30	$0	$0
Pre-Tax Income	($24,239)	($4,736)	($5,100)	($6,997)	($7,908)	($24,740)	$5,351	$58,344
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)	($5,100)	($6,997)	($7,908)	($24,740)	$5,351	$58,344
Reported EPS	**($0.16)**	**($0.03)**	**($0.03)**	**($0.04)**	**($0.05)**	**($0.16)**	**$0.03**	**$0.36**
Shares Outstanding	154,992.1	155,215.0	156,161.9	157,114.4	158,072.8	156,641.0	159,303.9	162,012.1

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

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