Zacks Small-Cap Research

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Titan Pharmaceuticals, Inc. (TTNP-NASDAQ)

Slow Probuphine Royalty Growth Yields Lower Target Price; Development Programs on Track.

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 (5/11/17)	$2.20
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	**$8.74**
52-Week Low	**$2.05**
One-Year Return (%)	**-59.3**
Beta	**1.61**
Average Daily Volume (sh)	**92,945**
Shares Outstanding (mil)	**21.2**
Market Capitalization ($mil)	**$46.6**
Short Interest Ratio (days)	**16.5**
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 E	$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	-$0.12 E	-$0.12 E	-$0.12 E	-$0.49 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 First Quarter 2017 Financial and Operational Results

Titan Pharmaceuticals, Inc. (NASDAQ: TTNP) reported first quarter 2017 results on May 10, 2017 in conjunction with the filing of its Form 10-Q. Total revenues, which consisted entirely of Probuphine royalties were $40,000, which were sharply below our forecasts. This compares to zero revenues in 1Q:16 and $35,000 in the prior quarter. R&D expenses of $2.1 million more than tripled over the prior year due to expenses related to external Probuphine and ProNeura product development programs, some of which will be reimbursed by Braeburn. G&A of $1.4 million rose 19%, with the greater total attributable to higher non-cash based stock compensation, employee related costs and professional fees. Net loss of ($3.0) million or ($0.14) per share in 1Q:17, compares to a loss of ($1.8) million or ($0.09) per share in 1Q:16.

Cash burn for the first quarter was ($3.1) million, greater than the ($2.1) million used in the first three months of 2016. Cash levels declined sequentially from $14.0 million at the end of 2016 to $10.9 million as of March 31, 2017.

Despite the full commercial launch of Probuphine by Braeburn in the first quarter, sales only posted a modest sequential increase over fourth quarter revenues. 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.

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 slightly higher than our estimates, predominantly due to greater external research and development for product development programs; however, Titan has indicated that these amounts will be reimbursed in 2Q:17. Management has guided for a gradual increase in sales over the next few quarters which we reflect in our royalty estimates. As a result we lower our forward estimates for Probuphine revenues to reflect the slower pace, which reduces our price target.

Recent Achievements

- Probuphine
  - Full commercial launch in 1Q:17
  - Issued J-code (J0570) by CMS aiding in identification and reimbursement of the drug
  - 70 payors including private insurers, CMS and the VA authorized use
  - EMA confirmed eligibility for review and approval under the centralized procedure
  - 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
- Titan granted Small Manufacturing Entity (SME) status in Europe, which provides financial incentives
- Ropinirole
  - IND submitted January 2017
  - Additional information requested regarding final release test data on implant and applicator which will be submitted in June
  - Phase I/II PK studies expected to begin in 3Q:17
  - Trial will enroll Parkinson's Disease patients receiving adjunctive therapy with oral ropinirole
- Triiodothyronine (T3)
  - Final formulation optimization studies currently in process
  - 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
  - Antimalarial agents for malaria chemoprophylaxis and treatment
  - Liraglutide for Type 2 diabetes
  - Oxytocin for autism spectrum disorder

Our Estimates

Royalty revenues from Braeburn's Probuphine sales decelerated on a sequential basis in the first quarter despite the full commercial launch employing a 60-person sales force. While Titan's partner has aligned more than 70 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. Based on first quarter actuals, we adjust our Probuphine royalty revenues to $0.7 million in 2017, and reflect a slower ramp up to peak sales in 2024. Our modifications to revenue estimates result in a reduction of our target price from $11 per share to $6 per share. Our model continues to exclude any contribution from ropinirole and T3 implant until clinical trials have begun.

We also provide quarter by quarter estimates for 2017 R&D and G&A. Both line items are expected to be highest in the first quarter as R&D costs reflected some reimbursable expenses that will offset R&D costs in 2Q:17. The third quarter will increase sequentially due to the launch of the ropinirole studies remain steady for the remainder of the year. G&A expenses were higher in the first quarter due to directors and officers insurance and payroll taxes. We anticipated a decline in the second quarter and steady levels over the remainder of the year.

Conclusion

Titan's $11 million in cash is anticipated to provide sufficient capital to fund operations over the next year based on company guidance and our estimates. Depending on trends in royalty revenues, additional financing through a capital raise may be required if the company plans to accelerate development programs or new products.

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 reflected in our estimates. We reduce our share price target to $6 to reflect lower than expected Probuphine royalty revenues growth but note the potential upside from a contribution from Probuphine sales outside North America as well as from ropinirole and T_3 when we reach the appropriate milestones.

PROJECTED FINANCIALS

Titan Pharmaceuticals, Inc. - Income Statement

Titan Pharmaceuticals, Inc.	2016 A	Q1 A	Q2 E	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	-	-	-	-	-	*1038.5%*	*562.2%*	*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%*	-	-	*-95.1%*	*562.2%*	*123.3%*
Cost of Goods Sold	$0	$0	$0	$0	$0	$0	$0	$0
Product Gross Margin	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*
R&D	$6.1	$2.1	$1.4	$1.6	$1.5	$6.6	$7.0	$7.5
G&A	$4.6	$1.4	$1.2	$1.2	$1.2	$5.0	$6.5	$6.8
Operating Income	$4.3	($3.4)	($2.5)	($2.6)	($2.3)	($10.8)	($8.6)	($3.4)
Operating Margin	*28.8%*	-	*-2500.0%*	*-1300.0%*	*-575.0%*	*-1464.5%*	*-175.5%*	*-30.7%*
Total Other Income	$0.8	$0.4	($0.1)	($0.0)	$0.9	$0.0	$0.0	$0.0
Pre-Tax Income	$5.1	($3.0)	($2.6)	($2.6)	($2.6)	($10.8)	($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)	($2.6)	($2.6)	($2.6)	($10.8)	($8.6)	($3.4)
Net Margin	-	-	-	-	-	-	-	-
Reported EPS	**$0.24**	**($0.14)**	**($0.12)**	**($0.12)**	**($0.12)**	**($0.49)**	**($0.38)**	**($0.14)**
YOY Growth	*-142.5%*	*55.4%*	*-121.9%*	*-0.6%*	*12.2%*	*-304.0%*	*-21.4%*	*-62.8%*
Weight Ave. Shares Out	21.5	21.4	21.9	21.2	21.6	22.2	22.4	23.5

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

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