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Titan Pharmaceuticals, Inc. (TTNP-NASDAQ)

New Board Member Brings Commercialization Experience

Based on our DCF model and a 15% discount rate, TTNP is valued at approximately $8.50 per share based on contributions from Probuphine and ropinirole in the US/EU. We currently do not include any contribution from the triiodothyronine or other in-development programs. Valuation for pre-clinical programs will be added upon commencement of clinical trials.

Current Price (5/21/18)	$0.76
Valuation	**$8.50**

OUTLOOK

Titan Pharmaceuticals launched its first product, Probuphine, with Braeburn Pharmaceuticals; however, Titan is currently negotiating to find another partner. The company is also in the process of obtaining approval in Europe and has partnered to commercialize Probuphine in the EU and other regions.

Ropinirole is in clinical trials and several other candidates are about to enter the clinical phase of the development pipeline. All products 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 benefits from long-duration slow release and has characteristics beneficial to controlled substance programs.

Titan's development products include a treatment for Parkinson's Disease (ropinirole) and hypothyroidism (T3). The company is also working on a variety of other implants both in-house and with partners.

SUMMARY DATA

52-Week High	**$2.85**
52-Week Low	**$0.60**
One-Year Return (%)	**-69.0**
Beta	**1.48**
Average Daily Volume (sh)	**111,530**
Shares Outstanding (mil)	**21.2**
Market Capitalization ($mil)	**$16.1**
Short Interest Ratio (days)	**4.06**
Institutional Ownership (%)	**7.0**
Insider Ownership (%)	**7.0**
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	**N/A**
P/E using 2018 Estimate	**N/A**
P/E using 2019 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)
2017	$0.0 A	$0.1 A	$0.0 A	$0.1 A	$0.2 A
2018	$1.1 A	$0.1 E	$0.1 E	$0.1 E	$1.4 E
2019					$9.5 E
2020					$18.1 E

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2017	-$0.14 A	-$0.16 A	-$0.20 A	-$0.17 A	-$0.68 A
2018	-$0.12 A	-$0.17 E	-$0.13 E	-$0.12 E	-$0.53 E
2019					-$0.19 E
2020					$0.12 E

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WHAT'S NEW

First Quarter 2018 Financial and Operational Results

Titan Pharmaceuticals, Inc. (NASDAQ: TTNP) reported first quarter 2018 results in its May 15th release. It was only last month when the company updated the investment community with their fourth quarter report. The only major event that has occurred since the last update was the addition of Federico Seghi Recli to the Titan Board of Directors. The negotiation with Braeburn for the return of Probuphine rights remains in progress.

In the first quarter, Titan reported total revenues of $1.1 million compared to $40 thousand in 1Q:17. This amount consisted of $25,000 in Probuphine royalty revenues and slightly over $1 million in revenues from the sale of property rights to Molteni. Research and development costs totaled $1.9 million, falling 13%. The contraction was due to lower levels of spending on external research and development programs for Probuphine and ProNeura. General and administrative expenses rose 20% to $1.6 million due to costs related to the Molteni transaction offset by lower personnel costs.

Cash and equivalents as of March 31, 2018 were $3.5 million, compared to $7.5 million at the end of 2017. Debt was $3.4 million, declining sequentially due to the pay down of debt to Horizon Technology Finance. Partner Molteni also took on some of the debt obligation with Horizon to ensure that there are no distractions in Titan's push to commercialize Probuphine in the US. Cash burn was ($1.1) million in 1Q:18 compared to ($3.1) million in 1Q:17.

Return of Probuphine

Titan announced on January 22 that it is in discussions with Probuphine license holder Braeburn regarding the disposition of Probuphine. Sales of the implant have been disappointing since the 2Q:16 launch of the product as Braeburn worked through payor, reimbursement, and Risk Evaluation and Mitigation Strategy (REMS) requirements among other complexities since first sales. Due to the shift of Braeburn management's attention toward addressing the CRL, a transfer of the development license from Braeburn has emerged as the most efficient path forward.

As per the agreement between Titan and Braeburn, the latter is required to make commercially reasonable efforts to sell Probuphine. More specifically this means that the company must use its skill, effort, expertise and resources to commercialize the drug.[1] As Braeburn reduced the size of its sales force in the face of poor sales, the requirement to fully commercialize the drug appears to be violated and Titan has begun the process to transfer commercialization rights from Braeburn to Titan. While we initially considered that a legal fight might be possible, it appears that the parties are in negotiations to return the rights and based on commentary from management, the costs of the transition are likely to be borne by partners. Titan has also suggested that they may directly participate in commercial activities and has begun to research select market segments for targeted commercialization. We note that Titan will need to obtain additional capital or assistance in order to pursue such a course. Braeburn had sublicensed Probuphine to Knight Therapeutics (TSE: GUD) who has filed a new drug submission (NDS) to Health Canada. A response from the regulatory agency is expected this summer. Knight's distribution role in Canada is unclear at current and their future rights and responsibilities will be part of the negotiation.

There is still no clear timeline for the transfer; however, Titan will share the details of the final agreement as they become available. We anticipate that it will take one or two quarters to work through the transition of Probuphine rights away from Braeburn and to the ultimate entity that will commercialize the product. It appears that Titan may itself focus on commercialization activities in some targeted areas; however, it is unclear how this will come about. Titan may also choose to work with a partner in which case, we believe that Titan can obtain an upfront payment as well as sales milestones and royalties, as the majority of these arrangements are structured.

Braeburn is required to continue support for the patients that are already using Probuphine and there should be a small stream of royalty income continuing from product sales in the interim prior to a new partner assuming the licenses.

[1] https://www.sec.gov/Archives/edgar/data/910267/000114420413061109/v360394_ex10-2.htm

Pipeline and Marketed Products

- Probuphine North America
  - Titan and Braeburn negotiating for return of commercialization rights
  - Transition period expected
  - Transition costs and new commercial rollout expected to be assumed by partners
- Probuphine Europe
  - November 6, 2017 filing of MAA
  - Molteni asset purchase, supply and support agreement with Titan – November 2017
  - Addressing questions from the EMA with response submission expected in Fall 2018
  - Notice of Allowance from European Patent office for methods of use providing protection until 2023
- Ropinirole
  - First patient treated early October 2017
  - Independent Data Safety Monitoring Board to review initial data June 2018
- Triiodothyronine (T3)
  - Completing non-clinical evaluation of its re-formulated implant
  - Pre-IND review with the FDA anticipated
  - Data presented at annual conference of the American Thyroid Association in October 2017
- New Candidates being evaluated for ProNeura
  - Opioid antagonist collaboration with Opiant Pharmaceuticals
    - Prevention of opioid relapse and overdose in individuals with opioid use disorder
    - Targeting completion of feasibility assessment in 1H:18
  - 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)
    - Walter Reed pursuing funding opportunities for the program
  - κ-opioid receptor as non-opioid analgesic for chronic pain
  - Liraglutide for Type 2 diabetes
  - Liothyronine (LT3) for treatment of hypothyroidsim
  - Oxytocin for autism spectrum disorder

Other Achievements

- New Members Added to Board of Directors
  - Federico Seghi Recli, formerly CEO of Molteni
  - Scott Smith, formerly COO of Celgene
  - Dr. Rajinder Kumar, CEO of MeRaD Pharmaceutical Ltd

Summary

While Probuphine has consistently fallen behind our estimates due to a variety of difficulties which have been discussed in our reports, we see it as a positive that rights are transferring back to Titan. Little is known about how the return of Probuphine will manifest itself, but we think there is a very low hurdle to surpass in order to improve upon the current situation. Currently we are awaiting a material update relating to the return of Probuphine rights and the structure of the arrangement. We maintain our valuation at $8.50 per share based on the potential for Probuphine and probability adjusted valuation for Ropinirole implant

PROJECTED FINANCIALS

Titan Pharmaceuticals, Inc. - Income Statement

Titan Pharmaceuticals, Inc.	2017 A	Q1 A	Q2 E	Q3 E	Q4 E	2018 E	2019 E	2020 E
Total Revenues	**$0.2**	**$1.1**	**$0.1**	**$0.1**	**$0.1**	**$1.4**	**$9.5**	**$18.1**
YOY Growth	*-98.6%*	*2560.0%*	*29.9%*	*150.0%*	*72.4%*	*534.4%*	*593.2%*	*91.1%*
R&D	$9.6	$1.9	$2.1	$2.5	$2.3	$8.8	$9.0	$7.2
G&A	$5.1	$1.6	$1.6	$1.7	$1.7	$6.5	$6.8	$6.8
Operating Income	($14.5)	($2.4)	($3.6)	($4.1)	($3.9)	($13.9)	($6.3)	$4.1
Operating Margin	*-6745.1%*	-	-	-	-	*-1020.1%*	*-67.1%*	*22.5%*
Total Other Income	$0.0	($0.2)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Pre-Tax Income	($14.5)	($2.6)	($3.6)	($4.1)	($3.7)	($13.9)	($6.3)	$4.1
Taxes & Other	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	($14.5)	($2.6)	($3.6)	($4.1)	($3.7)	($13.9)	($6.3)	$4.1
Net Margin	-	-	-	-	-	-	-	-
Reported EPS	**($0.68)**	**($0.12)**	**($0.17)**	**($0.13)**	**($0.12)**	**($0.53)**	**($0.19)**	**$0.12**
YOY Growth	*-385.8%*	*-12.6%*	*3.8%*	*-34.3%*	*-32.3%*	*-22.5%*	*-63.7%*	*-160.4%*
Weight Ave. Shares Out	21.2	21.2	21.3	31.2	31.3	26.3	33.0	35.0

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

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HISTORICAL STOCK PRICE

Titan Pharmaceuticals, Inc. – Share Price Chart



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