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Titan Pharmaceuticals, Inc. (TTNP-NASDAQ)

Long on Opportunity, Short on Capital

Based on our DCF model and a 15% discount rate, TTNP is valued at approximately $3.50 per share based on contributions from Probuphine in the US, EU and Canada. We do not include contribution from other in-development programs.

Current Price (8/19/19)	$0.44
Valuation	**$3.50**

OUTLOOK

Titan Pharmaceuticals is commercializing Probuphine with a multi-pronged strategy in the US and with partners in Canada and the European and contiguous region. Approval has been secured in the US and Canada. European approval is expected in 2Q:19.

Titan has received a two year grant to develop nalmefene using ProNeura for opioid relapse and overdose and may receive additional grants if milestones are met. The company has other projects in clinical and preclinical development that it will advance based on the availability of funding. 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 conducive to settings that require long-duration slow release and controlled substance programs.

SUMMARY DATA

52-Week High	**$5.04**
52-Week Low	**$0.40**
One-Year Return (%)	**112.5**
Beta	**0.58**
Average Daily Volume (sh)	**268,624**
Shares Outstanding (mil)	**15.7**
Market Capitalization ($mil)	**$6.9**
Short Interest Ratio (days)	**2.4**
Institutional Ownership (%)	**5.0**
Insider Ownership (%)	**4.3**
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)
2018	$1.1 A	$2.7 A	$1.7 A	$1.2 A	$6.6 A
2019	$0.9 A	$0.5 A	$1.0 E	$2.0 E	$4.4 E
2020					$8.7 E
2021					$8.0 E

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2018	-$0.74 A	-$0.25 A	-$0.64 A	-$0.29 A	-$1.64 A
2019	-$0.34 A	-$0.38 A	-$0.22 E	-$0.18 E	-$1.04 E
2020					-$0.67 E
2021					-$0.83 E

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WHAT'S NEW

Second Quarter 2019 Financial and Operational Results

Despite several factors in its favor including global expansion and repeat patients, second quarter revenues for Titan Pharmaceuticals, Inc. (NASDAQ: TTNP) disappointed and missed our modest growth estimates. Our previous target price underestimated the amount of capital and time that it would take to achieve profitability. Despite an opioid epidemic where almost 70,000 people[1] are dying annually, and two million[2] are addicted in the United States, sales have languished at around $300,000, despite entering the third year of approval for the ProNeura implant. Titan has taken several steps to advance the commercialization of Probuphine, forging partnerships with AllianceRx to help with payors and fulfillment, with AppianRx to provide patient support and with Accredo for product inventory management, billing and payment as well as deep relationships with third party payors. These agreements were signed in the first half of the year and will take some time to fully implement. We see value in Titan given the backdrop and the success of the drug in clinical trials and its unique profile which can provide steady drug distribution and evade diversion. However, due to the slow uptake we reduce our estimates in future periods to reflect the difficult efforts in front of us.

During the second quarter, Titan continued to build its relationships and announced a pharmacy services agreement with Southside Specialty Pharmacy in June which has a presence in California, Texas and Georgia. The company also penned an agreement with CVS Caremark in July for specialty product distribution. Looking overseas, Titan partner Molteni received approval for buprenorphine implant, designated Sixmo, in the European Union. On August 7th, the company announced pricing for $2.1 million of common stock which will provide sufficient capital for the next few months.

Titan submitted its quarterly update which was provided in the August 14th press release and concurrently filed 10-Q. During the quarter, Titan recorded total revenues of $0.5 million compared to $2.7 million in comparable period last year. Net loss of ($5.2) million or ($0.38) per share compares to prior year net loss of ($0.9) million and ($0.25) per share.[3]

Second quarter 2019 revenues of $0.5 million were comprised of $304,000 of product revenue and $198,000 of grant revenue. No license revenues were recognized. Grant revenue was related to the National Institute on Drug Abuse (NIDA) nalmefene implant project.

Cost of goods sold was $246,000, yielding a 19.1% gross margin. Cost of goods sold includes both the product cost, which is less than 10% of price and distribution cost, which is relatively fixed in dollar terms. Operating expenses were $5.1 million which consists of $1.9 million in research and development costs and $3.2 million in selling, general and administrative expenses. The 3% increase in R&D expenses reflected the start of the Phase IV clinical trial for Probuphine and higher activity levels for the nalmefene development program. SG&A expenses rose 134% due to greater commercial activities for Probuphine, higher consulting and professional fees, greater spend on outside services and travel costs.

Cash and equivalents as of June 30, 2019 were $2.3 million, compared to $9.3 million at the end of 2018. Debt was carried at $4.0 million. During the quarter, Titan received $571,000 from exercise of warrants and stock issuance. Cash burn was ($4.2) million in 2Q:19 compared to ($1.9) million in the comparable prior year period. Following the end of the quarter, Titan raised net proceeds of $1.8 million in a private placement. Management believes that cash levels are sufficient to fund the company until October 2019.

[1] CDC Numbers. https://www.cdc.gov/nchs/nvss/vsrr/drug-overdose-data.htm
[2] NIH data. https://ghr.nlm.nih.gov/condition/opioid-addiction#statistics
[3] Note that per share amounts are adjusted for the 1:6 reverse stock consolidation that occurred on January 24, 2019.

Exhibit I – Titan Pipeline



Partners

In the first six months of 2019 Titan announced partnerships with AllianceRx Walgreens Prime, AppianRx, Accredo and Southside Specialty Pharmacy to provide distribution and patient support services. These relationships are expected to shorten the time between product order and delivery and improve payment dynamics. Some of the changes that have been made include specialty pharmacy relationships with payors, a streamlined benefits authorization process, and holding inventory on-site. These improvements are expected to accelerate the process of delivering Probuphine to physicians and providing timely reimbursement. AllianceRx will carry inventory, manage insurance billing, offer payment processing and ship product to the provider. AppianRx will manage benefit verification, prior authorization, appeals and co-pay/patient assistance, which should reduce time from prescription to payment. Accredo has also moved necessary paperwork to an online platform, automating the procurement process, providing real time information and satisfying REMS and verifying eligibility. Southside is anticipated to expand the presence of Probuphine into California and Texas. We anticipate that Titan will continue to develop additional specialty pharmacy relationships to improve penetration.

Phase IV Probuphine Studies

Titan will initiate two Phase IV post-marketing studies this year. The first will be a small study estimated to cost from $3 to $4 million and will last for two to three years. It is slated to begin in the second quarter of 2019 and will evaluate the safety and pharmacokinetics of re-implantation of Probuphine into a previously used site on a patient's inner upper arm as well as implantation into an alternate location in the lower abdomen. A second, observational study is still in development and will start in the second half of the year. Trial cost for the second study is estimated to be around $8 million and will last for four years. It will assess implant procedure safety in an observational cohort design and is still being finalized. Titan is also participating in an industry consortium study to perform a QT prolongation study for patients treated with various forms of buprenorphine.

ATM Facility

In April 2019 Titan entered into an at the market (ATM) facility with Alliance Global Partners to sell up to $8.6 million worth of stock in the open markets. We believe that an ATM is one of the more shareholder friendly ways to raise small amounts of capital as it is relatively inexpensive from a transaction cost perspective and does not include any warrants or other dilutive securities. Due to Titan's market capitalization, it is restricted to raising a 33% of company market cap as its value is below $75 million and "Baby Shelf Rules" apply.

Molteni and the EMA

On April 29th, Titan announced that the Committee for Medicinal Products for Human Use (CHMP) of the European Medicines Agency (EMA) has adopted a positive opinion regarding the approval of the Probuphine implant in the European Union. The product will be branded Sixmo and will be indicated for substitution treatment for opioid dependence for stable patients. Following the recommendation, the CHMB was forwarded to the European Commission (EC) which provided the final approval in late June for the 28 member states. We anticipate that Molteni will take the remainder of the year to negotiate prices with individual government entities and be ready to sell product by early 2020.

Knight Therapeutics

Canadian partner Knight launched Probuphine in October 2018 and is focused on commercializing the product in rural Canadian areas for patients without ready access to a physician. The company's press release highlighted Health Canada's approval of the implant in 2018 and Knight's exclusive right to distribute the drug and their launch of the product. On the second quarter 2019 conference call, Titan noted that no license or product revenues were received from Knight as they were working through initial inventory on hand. We anticipate a pickup in license and product revenues in 2H:19.

Nalmefene

Beginning in October 2017, Titan conducted a feasibility assessment with Opiant to develop a product for prevention of opioid relapse and overdose in individuals with opioid use disorder (OUD). In September of 2018, Titan secured a grant from the National Institute for Drug Addiction (NIDA) to further this research using a ProNeura based six-month implantation formulation of nalmefene. The grant will provide $2.67 million during the first year and $6.08 million in the second year. The goal during the first two years is to complete IND-enabling work. Fund matching requirements exist and Titan must contribute $1.33 million in year one, but does not have an obligation in year two. There are an additional three years of funding that may be accessed if certain milestones are achieved. Titan expects to file an IND for ProNeura based nalmefene for the prevention of opioid relapse in 2H:20.

Valuation

Our initial estimates for Probuphine sales in the US and Canada were too high. While Titan has made substantial strides developing relationships with distributors and patient management, there remain several hurdles to surmount which will take time. We reduce our estimates of peak sales to $83 million in 2026 and by 40 to 70% in 2020 and 2021. Note that anticipated grant revenue of $4.5 million in 2020 is not expected to repeat in 2021, contributing to the year over year decline. The net of our changes reduces our target price to $3.50 per share. We are hopeful that our revenue cuts are too severe and will adjust accordingly based on performance in subsequent quarters. We also note the short term cash needs for Titan, as management has noted sufficient cash remains to support operations only until October. However, we do see substantial value in Titan's approved and in-development pipeline and a large investor or pharmaceutical company could acquire the shares of Titan as the current enterprise value is low compared to the potential of the product and pipeline.

Summary

Titan is developing the necessary infrastructure for growing sales despite slow progress. Near term revenue catalysts exist including a ramp up from Canadian sales in 2H:19 and European sales in 2020. We are hopeful that the relationships with dominant specialty pharmacies will shorten the time between order and delivery and also simplify the payor approval and REMS processes. Based on the adjustment to our revenue estimates, our target price moves to $3.50 per share.

PROJECTED FINANCIALS

Titan Pharmaceuticals, Inc. - Income Statement

Titan Pharmaceuticals, Inc.	2018 A	Q1 A	Q2 E	Q3 E	Q4 E	2019 E	2020 E	2021 E
Total Revenues	**$6.6**	**$0.9**	**$0.5**	**$1.0**	**$2.0**	**$4.4**	**$8.7**	**$8.0**
YOY Growth	*2978.6%*	*-11.2%*	*-81.2%*	*-39.4%*	*57.6%*	*-33.6%*	*97.9%*	*-8.0%*
Cost of Goods Sold	$0.538	$0.3	$0.2	$0.3	$0.3	$1.1	$0.9	$1.1
R&D	$7.5	$1.8	$1.9	$2.5	$2.7	$9.0	$9.7	$14.0
SG&A	$6.9	$3.1	$3.2	$3.1	$3.1	$12.5	$14.9	$16.0
Operating Income	($8.3)	($4.3)	($4.9)	($4.9)	($4.1)	($18.2)	($16.8)	($23.1)
Operating Margin	*-124.9%*	-	-	-	-	*-413.2%*	*-192.7%*	*-288.8%*
Total Other Income	($1.0)	($0.2)	($0.3)	($0.2)	($0.2)	($0.9)	($0.6)	$0.0
Pre-Tax Income	($9.3)	($4.5)	($5.2)	($5.1)	($4.3)	($19.1)	($17.4)	($23.1)
Taxes & Other	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	($9.3)	($4.5)	($5.2)	($5.1)	($4.3)	($19.1)	($17.4)	($23.1)
Net Margin	-	-	-	-	-	-	-	-
Reported EPS	**($1.64)**	**($0.34)**	**($0.38)**	**($0.22)**	**($0.18)**	**($1.04)**	**($0.67)**	**($0.83)**
YOY Growth	*-59.6%*	*-53.6%*	*55.7%*	*-65.5%*	*-37.3%*	*-36.3%*	*-35.9%*	*23.5%*
Weight Ave. Shares Out	5.7	13.2	13.6	23.1	23.5	18.3	26.0	28.0

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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