Zacks Small-Cap Research
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Arrowhead Pharmaceuticals, Inc. (ARWR-NASDAQ)

ARWR: Better Than Anticipated Interim Data for ARO-AAT…

Based on our probability adjusted DCF model that takes into account potential future revenues from the company's development products, ARWR is valued at $61/share. This model is highly dependent upon the continued clinical success of those programs and will be adjusted accordingly based upon future clinical outcomes.

Current Price (09/21/20)	$43.10
Valuation	**$61.00**

OUTLOOK

On September 16, 2020, Arrowhead Pharmaceuticals, Inc. (ARWR) announced interim livery biopsy results from the company's Phase 2 clinical trial of ARO-AAT in patients with alpha-1 antitrypsin deficiency (AATD). Following 24 weeks of treatment with ARO-AAT, there was a maximum reduction of 97% in intra-hepatic Z-AAT polymer, a result that was not anticipated this early in the trial. In addition, serum and intra-hepatic Z-AAT levels decreased by up to 93% and 95%, respectively. The company has submitted a late-breaking abstract to the American Association for the Study of Liver Disease (AASLD), and if accepted the data would be presented in November.

SUMMARY DATA

52-Week High	**$73.01**
52-Week Low	**$20.56**
One-Year Return (%)	**49.34**
Beta	**1.67**
Average Daily Volume (sh)	**2,351,503**
Shares Outstanding (mil)	**102**
Market Capitalization ($mil)	**$4,409**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**66**
Insider Ownership (%)	**4**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**362.7**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2020 Estimate	**-103.0**
P/E using 2021 Estimate	**-43.3**

Risk Level	**Average**
Type of Stock	**Large-Growth**
Industry	**Med-Drugs**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Dec)	Q2 (Mar)	Q3 (Jun)	Q4 (Sep)	Year (Sep)
2019	34.7 A	48.2 A	42.7 A	43.3 A	168.8 A
2020	29.5 A	23.5 A	27.4 A	20.6 E	101.0 E
2021					73.2 E
2022					50.0 E

Earnings per Share

	Q1 (Dec)	Q2 (Mar)	Q3 (Jun)	Q4 (Sep)	Year (Sep)
2019	$0.13 A	$0.24 A	$0.21 A	$0.11 A	$0.69 A
2020	-$0.03 A	-$0.20 A	-$0.15 A	-$0.15 E	-$0.51 E
2021					-$0.74 E
2022					-$1.04 E

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WHAT'S NEW

Business Update

Positive Interim Data for ARO-AAT

On September 16, 2020, Arrowhead Pharmaceuticals, Inc. (ARWR) announced interim 24-week biopsy data for four patients from AROAAT2002, an open label Phase 2 clinical trial of ARO-AAT, which is being developed to treat alpha-1 antitrypsin deficiency (AATD).

The company announced that three out of four subjects experienced a decline in intra-hepatic mutant AAT protein (Z-AAT) polymer and that one patient showed a reduction of 97%. Management had previously indicated that they did not anticipate seeing a reduction in Z-AAT polymer this early in the trial, and with a reduction of up to 97% in one patient these results clearly exceeded those expectations and could lead to a significant positive effect for AATD patients.

Additional positive indications from this trial included serum and intra-hepatic reductions in Z-AAT monomer of up to 93% and 95%, respectively, along with maximum reductions in ALT and GGT of 66% and 58%, respectively. All of the patients showed improved transient elastography FibroScan values, with three out of four patients showing reductions of >20%.

These data point to ARO-AAT having a clear, positive impact on AATD and we anticipate the company presenting the full data set later this year. The company has submitted a late breaking abstract to the American Association for the Study of Liver Disease (AASLD) and, if accepted, the data will be presented at the meeting in November.

The AROAAT2002 study is expected to enroll approximately 16 patients, with liver biopsies taken at 0, 6, 12, 18, and 24 months. The company is also conducting the Phase 2/3 SEQUOIA trial, in which patients will be treated for approximately two years. However, given the unexpectedly positive results seen at the six-month timepoint in AROAAT2002, the company may consider approaching regulators to streamline and accelerate that study.

Conclusion

We are very encouraged by the surprising reduction noted in Z-AAT polymer along with the robust reductions noted in Z-AAT monomer and other liver biomarkers at the 6-month timepoint and believe this could be indicative of the potential for ARO-AAT to have a profoundly positive effect for patients. We look forward to the full dataset being presented later this year. Based on these results we are increasing our probability of success for ARO-AAT from 60% to 70%, which has increased our valuation to $61.

PROJECTED FINANCIALS

Arrowhead Pharmaceuticals, Inc.	FY2019 A	Q1FY20 A	Q2FY20 A	Q3FY20 A	Q4FY20 E	FY2020 E	FY2021 E	FY2022 E
Revenue	$168.80	$29.45	$23.53	$27.38	$20.62	$100.98	$73.22	$50.00
YOY Growth	*945.7%*	*-38.8%*	*-44.9%*	*-36.8%*	*-87.8%*	*191.4%*	*52.1%*	*17.1%*
Total Revenues	**$168.8**	**$29.5**	**$23.5**	**$27.4**	**$20.6**	**$101.0**	**$73.2**	**$50.0**
YOY Growth	*945.7%*	*-38.8%*	*-44.9%*	*-36.8%*	*-87.8%*	*191.4%*	*52.1%*	*17.1%*
Cost of Revenue	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Gross Income	**$168.8**	**$29.5**	**$23.5**	**$27.4**	**$20.6**	**$101.0**	**$73.2**	**$50.0**
Gross Margin	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*	*100.0%*
R&D	$81.0	$23.4	$29.4	$32.6	$25.3	$110.7	$105.0	$110.0
% R&D	*48.0%*	*79.4%*	*125.1%*	*119.0%*	*122.8%*	*109.6%*	*143.4%*	*220.0%*
Salary and G&A	$26.6	$10.9	$16.3	$10.7	$12.2	$50.2	$52.2	$55.0
% SG&A	*15.7%*	*37.1%*	*69.4%*	*39.3%*	*59.3%*	*49.7%*	*71.3%*	*110.0%*
Other expenses	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
% Other	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Operating Income	**$61.2**	**($4.9)**	**($22.2)**	**($15.9)**	**($16.9)**	**($60.0)**	**($84.0)**	**($115.0)**
Operating Margin	*36.3%*	-	-	-	-	*-59.4%*	*-114.7%*	*-230.0%*
Other Income (Net)	$7.0	$2.2	$2.4	$2.3	$1.7	$8.7	$7.0	$6.0
Pre-Tax Income	**$68.1**	**($2.7)**	**($19.8)**	**($13.6)**	**($15.2)**	**($51.3)**	**($77.0)**	**($109.0)**
Net Taxes (benefit)	$0.2	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Tax Rate	*0.3%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Reported Net Income	**$68.0**	**($2.7)**	**($19.8)**	**($13.6)**	**($15.2)**	**($51.3)**	**($77.0)**	**($109.0)**
YOY Growth	-	-	-	-	-	-	-	-
Net Margin	*40.3%*	-	-	-	-	*-50.8%*	*-105.2%*	*-218.0%*
Reported EPS	**$0.69**	**($0.03)**	**($0.20)**	**($0.13)**	**($0.15)**	**($0.51)**	**($0.74)**	**($1.04)**
YOY Growth	-	-	-	-	-	-	-	-
Basic Shares Outstanding	98.6	97.1	101.7	101.8	102.0	100.6	104.5	104.5

Source: Zacks Investment Research, Inc. *David Bautz, PhD*

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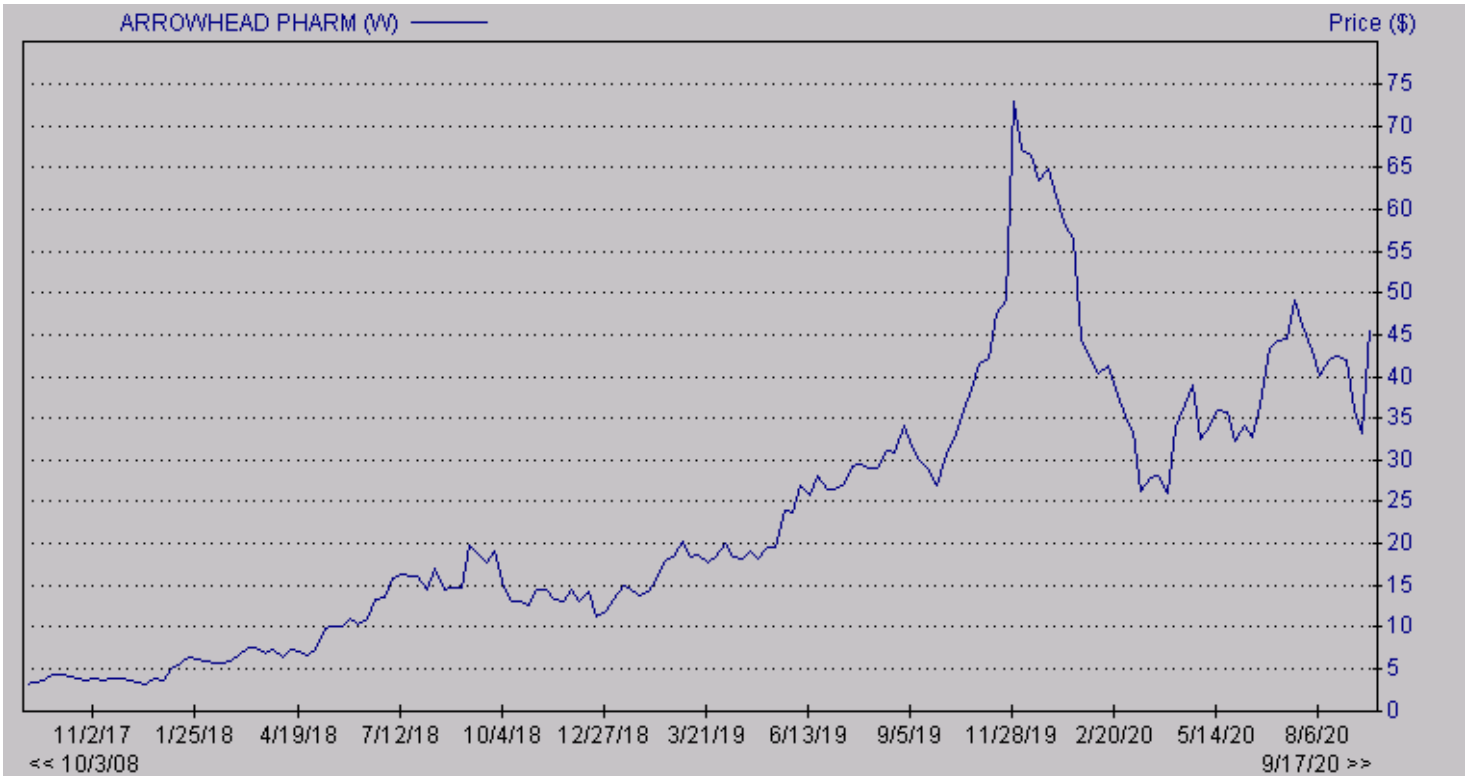
HISTORICAL STOCK PRICE



Source: Zacks SCR

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