Zacks Small-Cap Research

January 22, 2014
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Titan Pharmaceuticals, Inc. (TTNP-OTCQB)

TTNP: Insights From Meeting With Management…

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	06/01/2011
Current Price (01/22/14)	$0.68
Target Price	**$1.50**

UPDATE

On Sunday, January 12, 2014, we arrived in San Francisco, CA for the annual JP Morgan Healthcare Conference, as well as the parallel Biotech showcase and OneMedForum Conferences. This was the eighth year in a row that we made the trip to San Francisco for these events, which are a must-attend for serious healthcare investors.

During my three days in San Francisco, I conducted 25 one-on-one meetings with various managements of small and mid-cap biotechnology and specialty pharmaceutical companies. Below are some "notes" from our meeting with Titan Pharmaceuticals.

SUMMARY DATA

52-Week High	**$2.48**
52-Week Low	**$0.43**
One-Year Return (%)	**-64.79**
Beta	**10.77**
Average Daily Volume (sh)	**361,027**
Shares Outstanding (mil)	**83**
Market Capitalization ($mil)	**$55**
Short Interest Ratio (days)	**0.25**
Institutional Ownership (%)	**1**
Insider Ownership (%)	**15**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
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 2013 Estimate	**N/A**
P/E using 2014 Estimate	**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)
2012	1.3 A	1.4 A	1.2 A	3.3 A	7.1 A
2013	5.2 A	2.2 A	2.2 A	2.2 E	11.8 E
2014					0 E
2015					0 E

Earnings per Share
(EPS is operating earnings before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	-$0.09 A	-$0.03 A	-$0.12 A	-$0.01 A	-$0.15 A
2013	$0.07 A	$0.06 A	-$0.01 A	-$0.00 E	$0.12 E
2014					-$0.11 E
2015					-$0.10 E

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WHAT'S NEW

Titan Pharmaceuticals (TTNP)
Meeting took place with Dr. Marc Rubin, MD, Chairman, Sunil Bhonsle, President, and Katherine Beebe, PhD, EVP and Chief Development Officer

We had an informal lunch meeting with the management team from Titan Pharmaceuticals. The company wasn't presenting at any of the events and was only doing select meetings with analysts and investors prior to receiving final guidance from the U.S. FDA on a path forward for Probuphine following the complete response letter in April 2013. As a reminder, Titan held a Type-C meeting with the U.S. FDA on November 19, 2013 in an effort to better understand the issues of the CRL more fully, and to review and discuss data with the agency. In late December 2013, Titan announced that it had essentially found a path forward with the agency that revolved around experienced sublingual buprenorphine patients that are "stable" on 8mg of drug daily. This is in contrast to the original application which called for use of Probuphine in opioid addicts starting therapy on Suboxone.

We asked management about how long patients take to stabilize on a constant dose of Suboxone and they answered, "About 3-4 months." We then asked what percent of patients stabilize at 8mg versus 12-16mg, and the conclusion was that it was at least half, maybe higher. So although we believe the FDA's guidance effectively relegates Probuphine to maintenance therapy, it should not have a materially negative impact on sales of the drug. In fact, we think once approved, addiction medicine doc will probably still use Probuphine at a similar rate to how we predicted prior to the complete response letter, or in around 5-10% of all their patients. In essence, we see the narrower label as having only a minor impact on peak sales.

What remains true is the Titan will need to conduct another Phase 3 trial with Probuphine prior to re-filing the application. Unfortunately, management was unable to really provide good guidance on the details for this study, only that it will not be as large as the PRO-806 study (in terms of patients) but may take a similar time to enroll fully because of patient selection. Speed of enrollment in a clinical trial is always a good assessment of the market opportunity and sales for the drug, so we'll keep an eye on this. We remind investors that data from PRO-806 has been both published and presented for peer-review.

Three things remain clear to us that investors should note. The first is that Titan got screwed by the FDA (that's our professional opinion). The company demonstrated in two Phase 3 clinical trials and two Phase 3 extension trials that its drug works. Titan was granted priority review on the application and the agency's own Advisory Committee recommended approval of the drug in March 2013. But what's done is done. The second is that Braeburn remains committed to the development of Probuphine. Braeburn now owns 9.65 million shares at an average price of $0.96 per share. That's 10.9% ownership. The third is, that despite the fact that Braeburn will pay for the upcoming Phase 3 trial, Titan will still need to raise cash prior to Probuphine approval.

We think Titan has cash to get to early 2015. They are going to need added cash to support operations into 2016, we estimate to the tune of around $8-10 million. That being said, we think there is almost no chance that Braeburn lets Titan run out of cash, or at the very least, raise capital in the open market. Instead, we think Braeburn will double-down on its investment in Titan, seeking to bring its ownership level closer to 20% by the end of 2014. For Titan investors, this is the most shareholder friendly path forward, and we think could be a prelude to an outright acquisition of Titan by Braeburn following Probuphine's final approval in about two years.

PROJECTED FINANCIALS

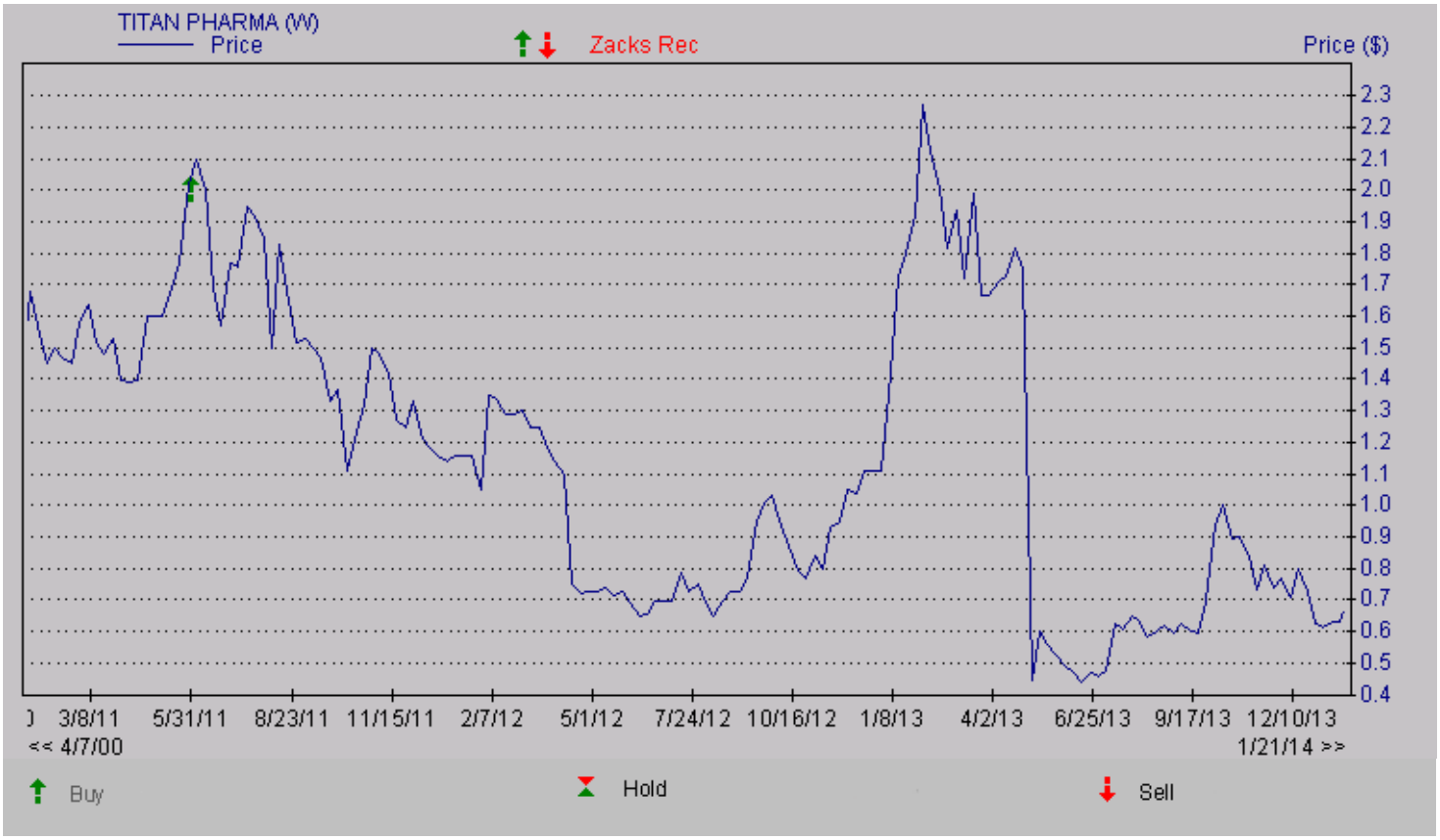
Titan Pharmaceuticals, Inc.
Income Statement

Titan Pharma	2012 A	Q1 A	Q2 A	Q3 A	Q4 E	2013 E	2014 E	2015 E
Probuphine Royalty	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
YOY Growth	-	-	-	-	-	-	-	-
Fanapt Royalty	**$4.8**	**$1.4**	**$0**	**$0**	**$0.0**	**$1.4**	**$0**	**$0**
YOY Growth	*32.5%*	*16.0%*	*-100.0%*	*-100.0%*	*-100.0%*	*-70.0%*	-	-
Licensing & Grant Revenue	**$2.4**	**$3.8**	**$2.2**	**$2.2**	**$2.2**	**$10.3**	**$0**	**$0**
Total Revenues	**$7.1**	**$5.2**	**$2.2**	**$2.2**	**$2.2**	**$11.8**	**$0**	**$0**
YOY Growth	*75.0%*	-	-	-	-	*65.4%*	-	-
CoGS	$0	$0	$0	$0	$0	$0	$0	$0
Product Gross Margin	*100.0%*	-	-	-	-	*100.0%*	*100.0%*	*100.0%*
R&D	$10.6	$3.9	$1.8	$1.7	$1.5	$8.9	$8.0	$8.0
% R&D	*149.1%*	-	-	-	-	*75.4%*	-	-
SG&A	$4.9	$1.1	$0.7	$0.6	$1.0	$3.4	$3.5	$4.0
% SG&A	*68.5%*	-	-	-	-	*29.2%*	-	-
Operating Income	($8.4)	$0.2	($0.3)	($0.1)	($0.3)	($0.5)	($11.5)	($12.0)
Operating Margin	*-117.6%*	-	-	-	-	*-4.7%*	-	-
Total Other Income	($1.5)	$5.8	$5.4	($1.0)	$0.4	$10.6	$1.0	$1.0
Pre-Tax Income	($9.9)	$6.0	$5.1	($1.1)	$0.1	$10.0	($10.5)	($11.0)
Taxes & Other	$0	$0	$0	$0	$0	$0	$0	$0
Tax Rate	*5%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*	*0%*
Net Income	($9.9)	$6.0	$5.1	($1.1)	$0.1	$10.0	($10.5)	($11.0)
Net Margin	*-138.7%*	-	-	-	-	*85.1%*	-	-
Reported EPS	**($0.15)**	**$0.07**	**$0.06**	**($0.01)**	**$0.00**	**$0.12**	**($0.11)**	**($0.10)**
YOY Growth	*-42.1%*	-	-	-	-	*-179.2%*	*-189.3%*	*-4.8%*
Weight Ave. Shares Out	66.5	86.8	82.6	82.5	89.0	85.2	100.0	110.0

Source: Zacks Small-Cap Research, Inc. *Jason Napodano, CFA*

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